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**HONDURAS
PROGRESS EVALUATION OF
THE SHELTER FOR THE
URBAN POOR II PROGRAM
(522-HG-008; 522-0324)**

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Preface

This evaluation was undertaken by Abt Associates Inc. for the AID Regional Housing and Urban Development Office for Central America (RHUDO/CA) and the AID Mission to Honduras (USAID). We thank the RHUDO for the substantive guidance it provided, particularly Mario Pita's overall direction and Ronald Carlson's and Sigifredo Ramirez' thorough orientation.

This report is based on the team's field work, interviews, and review of documents in February and March 1990.

We, of course, take full responsibility for this report.

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Executive Summary

1. Background and Program Purpose. The need for housing that is affordable by low-income families in Honduras is enormous -- for minimum shelter, potable water, sanitary sewerage systems, credit for home improvements, security of tenure, etc. These well documented problems have led AID to provide assistance largely designed to maximize the production of housing by channeling resources through national, predominantly public, institutions. The lessons learned from these programs were that the public sector is not an efficient or cost-effective producer of housing nor that such programs can lead to self-sustaining systems.

The Urban Poor II Program, the Housing Guaranty (HG) Program evaluated, intends that both the central and municipal governments in Honduras act as facilitators of housing and urban development activities by enacting effective policies aimed at creating a conducive environment in which the formal private sector, informal sector, and individuals can be mobilized to address Honduras' shelter and urban development problems.

The long-term goal of the Program is to improve the shelter conditions of low-income families in Honduras. That goal would be met if the project purpose could be achieved -- to improve the institutional capacity of the private sector and municipal governments to enhance the availability of housing and infrastructure services for low-income families.

The Urban Poor II Program is financed by a \$35 million HG loan intended to channel resources for housing finance and urban development activities to benefit over 30,000 persons with incomes below the median, and a \$1.6 million technical assistance and training grant in support of those activities. The Government of Honduras (GOH) is providing L15 million (\$7.5 million) for this program from Economic Support Funds.

AID authorized the program in September 1986, signed an Implementation Agreement for the HG loan with the GOH in December 1986, but not until after the Grant Agreement was signed with the GOH in July 1987 and the loan agreement in September 1987 was the program initiated. AID determined that there has been sufficient project experience to warrant a progress evaluation now.

2. Evaluation and Methodology. Prior to arrival in Honduras, the evaluation team reviewed the Project Paper, the Implementation Agreement, the Grant Agreement, and AID guidance for undertaking evaluations. The team met with RHUDO and Mission staff and reviewed project files and documents. The team prepared a series of questions to serve as guidance for the nearly 50 meetings held throughout the country. The team visited all seven of the participating cities, meeting in each with the Mayor and responsible project implementation officials, as well as in some cities with representatives of the private sector which are important participants in the projects. The team visited project sites, discussing project impacts with neighborhood residents, small business people, and patronato representatives.

3. Findings and Conclusions. The Urban Poor II Program is fundamentally sound, on its way to meeting many of its physical output targets, and supporting important new policy changes. Over 12,000 low-income persons have been provided with water and sewerage systems or mortgages for new housing; nearly 20,000 persons will soon benefit from projects in process; an estimated 3,000 persons will benefit from projects not yet started. The home improvement portion of the shelter component is virtually dormant. Major policy changes to promote the participation of the private sector in urban development have taken place in San Pedro Sula, and to a lesser degree in La Ceiba.

Macroeconomic realities constrain domestic resource mobilization and affect disbursements and consequently project execution.

The participating cities differ in size and urban functions, in political leadership, in community attitudes, in technical capability, in human resources, in financial resources, and historical patterns of growth. Most Honduran municipalities suffer from limited authority, inflated bureaucracies, lack of resources, ineffective management capabilities, and heavy dependence on centralized government.

Local government autonomy is vital for municipal progress. The evidence is quite clear that where local government has controlled the resources, that is, where it has raised and spent money, the likelihood of effective service delivery is high. The proposed municipal development law will be important to improved effectiveness of urban management by local governments.

Urban Poor II projects incorporate limited cost recovery targets or formal mechanisms for the recovery of costs over future years. The source of financing of off-site infrastructure in Urban Poor II projects has varied from the municipality itself, other donors, and the Employment Generation Project. There is no evidence that municipalities (with the exception of San Pedro Sula) are prepared for the maintenance of their water and sewerage systems.

The private sector will participate in urban service delivery. The San Pedro Sula model is significant. A private investor has decided to take risks as long as the public sector provides a suitable framework -- in this case a modification of land use standards and the provision of several in-kind contributions that make the project viable.

Non Government Organizations (NGOs) are the most viable intermediaries for reaching low-income households. Although NGOs can now technically link formal sources of credit to their informal sector clientele, the Fondo de la Vivienda's (FOVI) insistence on the use of mortgages as loan guarantees is a major obstacle to NGO involvement in shelter production and finance.

Long-term technical assistance is balanced between project implementation and specific technical and management assistance. The short-term technical assistance provided by UCAT has generally not been effective. Technical assistance from one Honduran operating agency to another is an effective mechanism.

Water, sewerage, and street paving projects have a) contributed to increased earnings for small and informal businesses; b) increased land and home values; c) encouraged many residents to make improvements to their homes; d) provided construction jobs for residents (nearly 350,000 person days of employment have been generated both by completed projects and projects in process); e) improved environmental and sanitary conditions; and f) encouraged the formation of groups for neighborhood improvement projects.

The participation of private housing finance institutions has been limited. The Urban Poor II Program succeeded in enlisting S+L participation in the quantitative production and financing of shelter solutions affordable to lower income groups largely because these private institutions served as a conduit through which to channel external savings into housing investment.

The amount of mortgage credit available in Honduras is only a fraction of what is required. Although established to serve as the country's primary source of housing finance, the savings and loan system's fundamental weakness is its inability to mobilize long-term savings to match with long-term mortgages. FOVI operates as a successful, albeit constrained, second-tier lender of the housing finance system.

4. Principal Recommendations. Technical assistance and training to municipal governments should be strengthened. Effective local government agencies, like DIMA and UMVIDE in San Pedro Sula, should be enlisted to provide assistance to other municipalities. The successful strategies by which the commercial private sector has participated in the program should be understood and promoted. The involvement of community based organizations, cooperatives, and the informal sector in urban development programs should be encouraged. Alternative loan guarantees for NGO lenders should be developed.

5. Lessons Learned. AID should continue to support the passage of the municipal development law and provide assistance to those cities that are most receptive to policy change.

If and when structural adjustment programs take effect, opportunities to mobilize additional domestic resources for mortgage lending on market terms should be explored.

Dramatic differences exist among the seven municipalities participating in the Urban Poor II Program. In future projects, AID might consider undertaking an impact evaluation; this would require the early establishment of base line data to be compared with the project when completed.

Acronyms

AID	U.S. Agency for International Development
APRHU	Asociacion de Promocion Humana
BANMA	Banco Municipal Autonomo
CABEI	Central American Bank for Economic Integration
COFINSA	Consultores Financieros Internacionales
DIMA	Division Municipal de Aguas (San Pedro Sula)
EGP	Employment Generation Project
ENEE	Empresa Nacional de Energia Electrica
FACACH	Federacion de Asociaciones Cooperativas de Ahorro y Credito de Honduras
FEHCOVIL	Federacion Hondurena de Cooperativas de Vivienda
FOVI	Fondo de la Vivienda
GOH	Government of Honduras
HG	Housing Guaranty
HONDUTEL	Empresa Hondurena de Telecomunicaciones
INVA	Instituto Nacional de la Vivienda
L	Lempiras official exchange rate: 2.00 Lempiras = \$1.00
MHCP	Ministerio de Hacienda y Credito Publico
NGO	Non Governmental Organizations
RHUDO	Regional Housing and Urban Development Office/Central America
SANAA	Servicio Autonomo Nacional de Acueductos y Alcantarillados
UCAT	Unidad de Coordinacion y Asistencia Tecnica
UMVIDE	Unidad de Vivienda y Desarrollo Urbano (San Pedro Sula)
USAID	AID Mission to Honduras

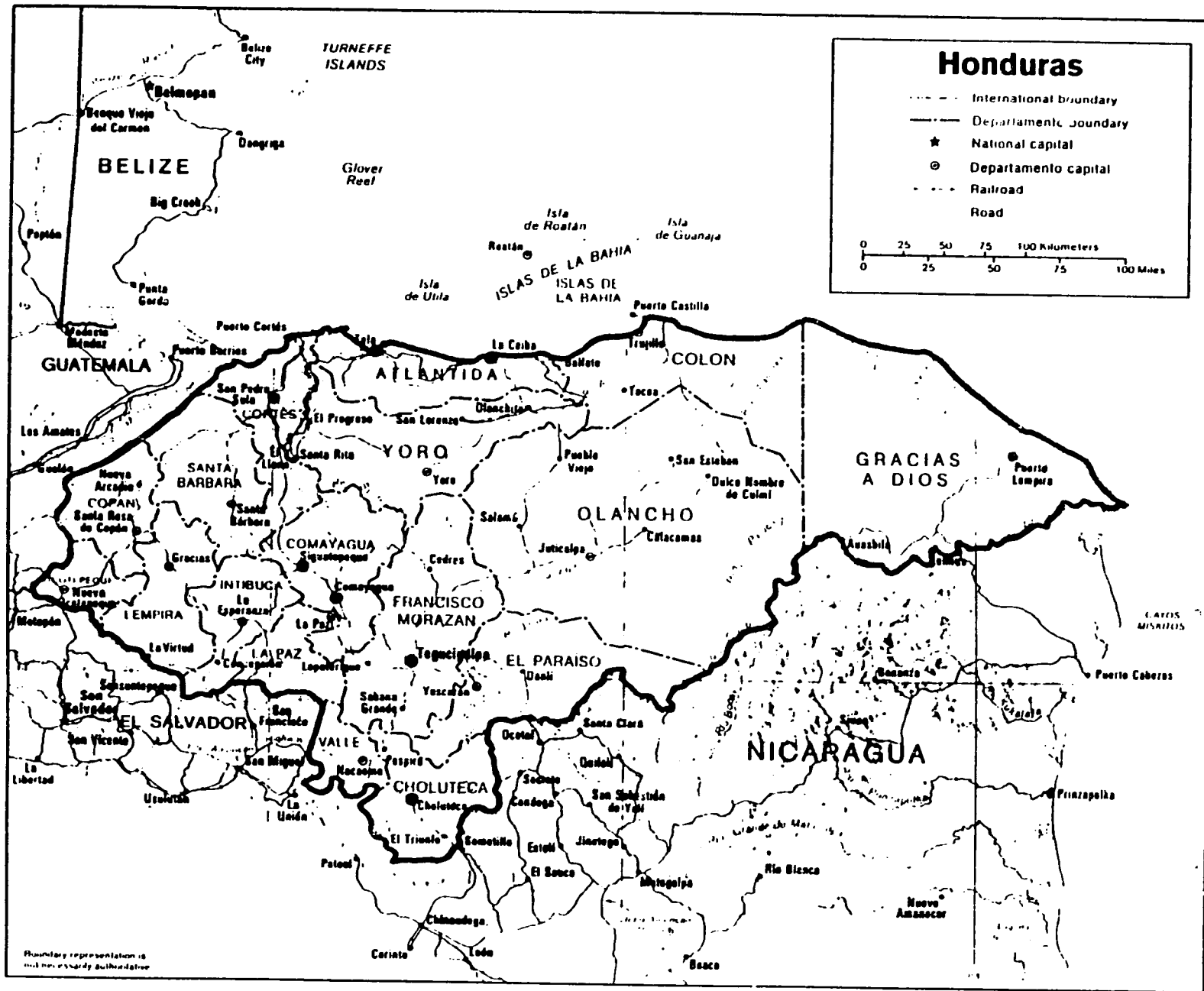
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Map of Honduras with Project Cities

1. INTRODUCTION

This section provides an overview of the program, the evaluation, and the conditions in Honduras which have had an impact on shelter and urban development in general and on the Urban Poor II Program in particular.

1.1 Background

Previous AID programs in Honduras' shelter sector were largely designed to maximize the production of housing by channeling external resources through various national, and predominantly public, institutions. The lessons learned from these programs were that the public sector is not a particularly efficient or cost-effective producer of housing nor that such programs can lead to self-sustaining systems. The Urban Poor II Program, the current Housing Guaranty Program being evaluated (522-HG-008), intends that both the central and municipal governments in Honduras act as facilitators of housing and urban development activities by enacting effective policies aimed at creating a conducive environment in which the formal private sector, informal sector, and individuals can be mobilized to address Honduras' shelter and urban development problems. Throughout the 1980s, however, shelter and urban development in Honduras has been constrained by economic and fiscal realities. Further exacerbating the situation is the fact that the concept of shelter and urban development as a sector is altogether lacking at the national level. There is no defined and adopted framework for an urban development nor housing finance system in the country. No single institution nor government agency has assumed the responsibility for developing national urban development and housing policies, nor other elements necessary for directing limited resources to urban needs of an increasing lower income clientele.

1.2 The Program and Evaluation

The Shelter for the Urban Poor II Program is financed by a \$35 million Housing Guaranty loan (522-HG-008) intended to channel resources for housing finance and urban development activities to benefit over 30,000 families with incomes below the median, and a \$1.6 million technical assistance and training grant (522-0324) in support of those activities. The Government of Honduras is providing L15 million (\$7.5 million) for this program from Economic Support Funds.

AID authorized the program in September 1986, signed an Implementation Agreement for the Housing Guaranty (HG) loan with the Government of Honduras (GOH) in December 1986, but not until after the Grant Agreement was signed with the GOH in July 1987 and the loan agreement in September 1987 was the program initiated. Due to the late start as well as subsequent delays, it is only now that the project has reached a mid-point of implementation. AID has determined that there has not only been sufficient project experience to warrant a progress evaluation now, but that the timing is propitious to make appropriate adjustments to project implementation. Equally important, AID is currently developing a new municipal development project in Honduras and is

seeking lessons from this project that can be applied to the new project. For these reasons, AID scheduled this evaluation at this time.

The three-person evaluation team provided by Abt Associates consisted of a housing and urban planner, an economist and financial specialist, and an architect/urban development specialist. Collectively, the team provided skills in local government management and planning, housing finance, and urban service delivery, with experience in analysis, project design and implementation, and evaluation. The team also had extensive experience with the Housing Guaranty loan program.

1.3 Country Context

After a downturn in economic activity in Honduras during the early 1980s growth resumed in 1984, but until recently the rate of growth was barely above the population growth rate. During 1987 and 1988, output growth accelerated to an average of 4.5 percent; nevertheless, real gross domestic product (GDP) per capita at the end of 1988 was more than 10 percent below its peak in 1980. It is estimated that real per capita income (expressed in 1980 dollars) declined from \$667 in 1980 to \$565 in 1987 before recovering modestly to \$570 in 1988.

Throughout the 1980-88 period, labor force growth has been rapid, resulting in high rates of open unemployment. Inflation, based on official price statistics, has been generally low since recovery began in 1984. During 1988 and the first half of 1989, there was an increase in price acceleration. This inflation was attributable to shortages of basic grain production and a depreciation of the lempira in the parallel exchange market following the exhaustion of useable reserves brought on by domestic fiscal imbalances. By mid-1989, the annual rate of change in consumer prices was officially about 9.5 percent. However, owing to extensive price controls and the unavailability of many items at the controlled prices, official data underestimates actual inflation. In the construction sector, for example, data developed by the Honduran Construction Industry Association indicates that the cost of labor and materials required to produce a "typical" low-cost housing unit rose by 37.8 percent and 35.9 percent, respectively, during the 1987-89 period.

The combined effects of declining real income, rising unemployment, and steep price increases have and will continue to pose severe constraints on Honduras' ability to provide minimum shelter and urban services for its lower income citizens. Even if these economic conditions were not so serious, the limited capacity of local governments precludes the effective provision of needed urban services. Municipalities generally lack the financial resources, the technical capacity, and the legal power to plan and implement urban development projects.

As for shelter, an analysis of housing needs and financing capability conducted during 1989 concluded that "income levels in Honduras are so low that, even if housing institutions were capable of delivering shelter in packages that incorporated minimum building standards, and even if shelter

finance at 14 percent interest rates were available to all borrowers, more than half of the present housing deficit would remain."¹ But the reality is that mortgage credit has not been available in any large quantity nor can it be expected to be in the near future due to a number of internal and external developments.

Since the early 1980s, declines in savings and domestic investment have further exacerbated the country's slow economic growth rate. Both public and private domestic savings have declined as a proportion of GDP, with the public sector's share turning negative in 1983. During 1987 and 1988, external savings exceeded gross national savings as a proportion of GDP. Between 1984 and 1988, nearly 60 percent of domestic investment was been financed through external savings although overall investment as a proportion of GDP has continued to decline since the completion of the externally-financed El Cajon hydroelectric power plant in 1985.

During the 1980-85 period, external capital was used to finance over 50 percent of the country's fiscal deficit. However, since 1986 external financing has declined considerably and the central government's attempts to reduce its fiscal deficit, estimated at 6.9 percent of GDP in 1988, have taken the form of reduced capital expenditures, i.e., public investment, and, more importantly, reliance on domestic bank credit. The latter has been accomplished by both an increase in the reserve requirements on bank deposits and by the sale of government bonds. The amount of central government bonds held by commercial banks, other credit institutions, insurance companies, and the pension funds -- all potential sources of long-term savings for mortgage financing -- rose by 54 percent over the 1984-88 period. This is largely due to the fact that government bonds became an increasingly attractive instrument of financial savings. Carrying interest rates of between 7 and 13 percent and a two year term, the bonds are issued with a guarantee of redemption at par on demand which insures against risk of capital loss. This action has enabled the central government to capture funds to finance its fiscal deficit at a below market cost of funds.

There is no firm estimate as to the magnitude of the crowding-out effect of these developments on private sector investments, including housing. Some authorities argue that the increase in reserve requirements had only limited effects on the credit operations and that it is a lack of economically viable private investment projects which is responsible for a weak demand for private sector borrowing.² Capital flight has been widespread among those unwilling to invest in lempira-denominated financial assets. Institutions and individuals willing to invest in these types of assets view long-term mortgages as risk-bearing loans and prefer investments with short maturities. The declining level of domestic financial savings available to the housing finance system for long-term mortgage credit coupled with the unwillingness on

¹Urban Institute, Honduras Shelter and Urban Development Sector Assessment (Report to USAID/Honduras, April 1989).

²Webb, et al., Credit Policy in Honduras in the Context of Macroeconomic Constraints (Report to USAID/Honduras, May 1988).

the part of private wealth holders and cash rich institutions to provide their savings on a long-term basis will continue to inhibit formal housing production for all but upper income groups.

Honduras' external position deteriorated considerably during the 1980s due to several factors: domestic demand remained stable despite slow export growth; adverse changes in the terms of trade; and reduced external financing. Export volumes, declined for all products with the exception of bananas, as did the share of exports in GDP. Import volume remained generally unchanged during 1984-88 with the current account deficit averaging about eight percent during that five year period. Between 1980 and 1984, Honduras relied on external capital flows to balance its external accounts. Since 1984, official capital inflows have been markedly reduced and external payments arrears have financed a major share of the overall external deficit. By the end of 1988 the stock of external payments arrears was equivalent to 45 percent of exports of goods and services. Official reserves have declined significantly since 1987 and by end-1988 these were equivalent to only one month of imports.

Arrears continued to accumulate during the first half of 1989 due to heavy debt service obligations to multilateral agencies. At the end of July 1989, arrears to the Inter-American Development Bank were \$15.8 million, to the International Monetary Fund, \$17.1 million, and to the World Bank about \$70.1 million.

The buildup of arrearages and stagnant foreign exchange earnings led to AID's decision not to authorize Honduras to borrow the final \$10 million tranche of Housing Guaranty resources for the Urban Poor II program. While the evaluation team was in country during early 1990, negotiations were underway to clear these arrearages so that lending from bilateral and multilateral sources could resume.

All of these developments have led to the emergence of a significant spread between the exchange rates in the official and parallel exchange markets. The spread amounted to about 30 percent at end-1987, but has risen sharply to over 100 percent by early 1990. Official devaluation of the lempira is widely expected and the risk of devaluation has important consequences for the Honduran economy in general and the shelter and urban development sector in particular. The expectation of devaluation and/or inflationary pressures will encourage holders of wealth to invest in real assets. With a concomitant escalation in land and housing prices, this will have the effect of putting affordable shelter out of reach of even more Hondurans.

These economic and financial problems of Honduras have implications not only for the financing of housing for low-income families, but also for the capacity of local governments to provide urban services.

Honduras has a long tradition of local government dating back to the strong urban culture of colonial Spain. During the colonial period municipalities were the center of political and economic power. In recent years, however, control once held by municipalities has shifted to central government and autonomous parastatals, while being compelled to serve an ever increasing population. Municipalities have been stripped of resources and the capacity

to provide basic services to their communities. The Municipality of Tegucigalpa, for instance, is 411 years old, but like almost all Municipalities in Honduras, has only limited ability to deliver basic services to its population.

Presently, the Municipal Law and Political Regime of 1927 regulates the Municipalities in Honduras. Each Municipality has a Mayor (Alcalde), a Municipal Attorney (Sindico), and several Council Members (Regidores) elected every four years. A new law that would return autonomy to the Municipalities is being debated in Congress. Municipalities view this new law skeptically and are concerned with its actual implementation and enforcement. Nevertheless, the law is a positive first step in attempting to return to the municipalities the functions for which they were created.

Given Honduras' recent and ongoing economic and financial problems, the limited capacity of local governments, and the sheer magnitude of low-income households, there are clear limits to what can be accomplished by development programs which encourage market-based financing of individual homes and municipal financing of urban services. It is in this context that the Urban Poor II program was developed and is being implemented.

2. PROGRAM DESCRIPTION

The Urban Poor II Program is essentially two quite different projects supported by a third -- one housing, another urban development, both financed by the same source of capital assistance (the Housing Guaranty loan), and a third, technical assistance (the Grant and ESF resources) that supports the first two. In this section, the project history is recounted and the original goals and objectives are presented. The project's change of emphasis and quantifiable progress is reflected in data on expenditures and physical output.

2.1 Program History

This program was designed in 1986 to consolidate and redirect three earlier HG projects. In 1980, AID authorized a \$10.5 million loan (HG-005) to the Instituto Nacional de la Vivienda (INVA) to finance housing for low-income families. Also in 1980, AID authorized a \$10.0 million loan (HG-006) to finance urban upgrading in Tegucigalpa and San Pedro Sula. In 1981, AID authorized a \$25 million loan (HG-007) to finance private sector construction of low-income housing through FINAVI; \$10 million of that authorization was not used.

Then, in 1986, the HG-008 program was designed to consolidate funding and redirect the focus to urban upgrading activities in primary and secondary cities and housing finance by the private savings and loan system. When the Program was approved in September 1986, it provided the GOH with funds from the following sources:

Previously authorized but unused from HG-007	\$10.0 million
New authorization from HG-008	\$25.0 million
Economic Support Funds (ESF)	\$ 7.5 million
Total	\$42.5 million

The program was supported by technical assistance financed by a \$1.6 million grant and \$533,000 from ESF resources.

Over the 1986-88 period, AID changed the distribution of the funds from those program components suffering from implementation problems to those where implementation opportunities emerged, where new plans and ideas signaled support, and even leadership, toward the kinds of policy changes necessary to improve the living conditions of the urban poor. Consequently, available funding for Tegucigalpa was reduced, available funding for secondary cities was reduced from twelve cities to support for only five, and funding for San Pedro Sula urban upgrading and urbanized lots was increased.

	Original Plan from Project Paper	Actual Plan based on Opportunities
Housing financed for low-income families through FOVI	\$22.5 million	\$22.5 million
Tegucigalpa urban upgrading	\$ 5.0 million	\$ 3.8 million
San Pedro Sula urban upgrading	\$ 5.0 million	\$ 6.2 million
San Pedro Sula urbanized lots	-	\$ 5.0 million
Secondary cities urban upgrading	\$10.0 million	\$ 5.0 million
Total	\$42.5 million	\$42.5 million

The Implementation Agreement that the GOH signed with AID in December 1986 stipulates that "Program costs will be kept at a level so that Program benefits are affordable to families whose gross monthly income is below the applicable median monthly income for the area in which the project is located." By March 1987, as the program was just being implemented, a closer review of the key data suggested to both AID and the GOH that the incomes established in the Agreement had not been based on the best information. As a result a Project Implementation Letter (PIL) at that time established new monthly income limits, increasing the figures in the two primary cities, and decreasing the figure for the participating secondary cities. Thus:

	Implementation Agreement, 12/86	Median Monthly Income Revised in PIL, 3/87
Tegucigalpa	L938	L993
San Pedro Sula	L698	L734
Secondary Cities	L528	L496
Tela		
La Ceiba		
Siguetepeque		
Comayagua		
Choluteca		
Other Urban Areas (not participating in this program)	L329	L310

From the \$35 million authorized, \$25 million was contracted in September 1987 from the original HG-008. A single disbursement of \$3,831,232 was made by the U.S. lender to the GOH in September 1987, while the remaining \$20,688,768 (after AID fees of \$480,000 were paid) was placed in escrow. Since then, 23 additional disbursements have been made from escrow for eligible projects, so that by the end of 1989, \$3,117,324 remains undisbursed in escrow (Table 22).

2.2 The Program

The long-term goal of the Program, as established in the Project Paper, was to improve the shelter conditions of low-income families in Honduras. That goal would be met if the project purpose (articulated in the Project Paper in a mixed purpose/assumption manner) could be achieved -- to improve the institutional capacity of the private sector and municipal governments to enhance the availability of housing and infrastructure services for low-income families.

The HG resources were borrowed by the Ministry of Finance, which in turn managed the disbursements to the municipalities. This arrangement provided one of the few opportunities for the national government to work directly with the local governments.

Project implementation units established in Tegucigalpa and San Pedro Sula for HG-006 continued to operate for Urban Poor II; new implementation units were created in the other participating municipalities. They evolved as semi-autonomous entities with relative independence from the local bureaucracy in order to cover the full range of financial, managerial, and operational needs in a timely manner.

With assistance from AID and UCAT, each municipality prepared an eligibility study for each project proposed for Urban Poor II funding.

To improve employment opportunities in Honduras, AID finances a grant program -- the Employment Generation Project (EGP) -- that is managed by a local institution created for this purpose. The Project provides funding to local governments for a variety of public works projects as long as there is a significant unskilled labor component and the construction materials are Honduran. Many of the water and sewerage projects financed by Urban Poor II have been supported by EGP funds, particularly for off-site infrastructure that the HG loan will not otherwise finance.

The Housing Finance resources are channeled through the Fondo de la Vivienda (FOVI), a Central Bank fiduciary fund, primarily to private sector lenders for low cost housing production and mortgage financing affordable to families with incomes below the median. FOVI authorizes loans for mortgages presented by institutions such as savings and loan associations, qualified non-governmental organizations, and to a lesser extent the Instituto Nacional de la Vivienda (INVA). These institutions apply to FOVI to reserve credit for projects which they intend to develop and provide long term mortgage financing. Once approved by FOVI, it makes a commitment to rediscount mortgages based on these applications and its own review. With FOVI's commitment, the developer obtains construction financing locally. Upon the sale of the units, the financial institution issues mortgages that are then rediscounted by FOVI.

3. FINDINGS

Based on the evaluation team's analysis of information obtained from site visits, interviews, and review of documents, the housing finance component of the program has been found to be meeting its physical targets, and weak and generally ineffective in meeting its policy objectives. At the same time, the urban development component is making moderate progress towards its physical targets, while it has been successful on many of its revised and expanded objectives. The technical assistance has had minimal impact on the shelter component, while contributing significantly to the urban development component.

As indicated on the summary table below, upon completion of the Urban Poor II Program, more people (over 35,000) will benefit than originally planned.

	Original Number of Direct Benef.	Number of Direct Benef. Estimated as of February'90
Upgraded Infrastructure	21,887	9,526
Home Improvements	6,750	169
New Shelter	<u>2,917</u>	<u>2,605</u>
Total	<u>31,554</u>	<u>12,300</u>
Projects in Process		19,800
Eligible Projects not Started		3,000
Total		<u>35,150</u>

3.1 Housing Finance

3.1.1 Outputs of the Shelter Component

The goal of the shelter component of the Urban Poor II Program is to improve the shelter conditions of low-income families. The achievement of this goal was to be measured by a significant increase in the number of low-income families provided with improved shelter conditions.

The program's stated purpose is to improve the institutional capacity of the private sector to enhance the availability of housing for low-income families. This was to be accomplished through greater reliance on the private sector in the production, marketing, and financing of shelter solutions affordable to low-income families.

The target outputs for the housing component are as follows:

- o New shelter (including urbanized lots) produced and financed:
2,917 units
- o Home improvement loans:
6,750 loans
- o New savings generated during the life of the project:
\$95 million
\$80 million allocated for mortgage credit
- o New lending for housing:
\$28 million annually

Table 1 illustrates that 3,119 shelter solutions (new housing and urbanized lots) had been financed since the inception of the Urban Poor II Program. Of this total, 2,282 had been financed directly by Housing Guaranty (HG) resources and the remaining 663 solutions by resources advanced to the program by the Fondo de Vivienda (FOVI). The private sector originated over 77 percent of the mortgage value of these solutions with the Honduran Savings and Loan System (S+Ls) responsible for nearly 94 percent of private sector output.³ Two Non Governmental Organizations (NGOs), the Honduran Association of Housing Cooperatives (FEHCOVIL) and the Asociacion San Juan Bosco, were responsible for the remainder of private sector lending.

With regard to home improvement loans, Table 1 (see Appendix F for all Tables) demonstrates that only 169 loans had been made by end-1989 representing 2.5 percent of targeted output. The public sector's Instituto Nacional de la Vivienda (INVA) was responsible for nearly 72 percent of the value of home improvement lending.

It is important to note that FOVI, the lead public sector housing finance institution in the Urban Poor II Program, was to have received a total of L45 million for the rediscounting of eligible mortgages. At end-1989, FOVI had received only L29 million in HG resources which it used to discount mortgages for 2,605 shelter solutions. The L16 million shortfall was due to a prohibition on additional borrowing of HG resources until the country's arrearage problems with multilateral lenders was resolved. Since the start up of the Urban Poor II Program in 1987, FOVI has discounted eligible mortgages totaling L39.2 million, L10.3 million with its own resources. This total represents mortgage credit for 3,100 homes, 173 urbanized lots and 169 home improvement loans (Table 1). It is FOVI's understanding that these L10.3 million are to be reimbursed once an improvement in Honduras' external position allows for the remaining \$10 million of authorized HG funds to be borrowed. Presumably, this will allow for an additional L5.7 million to be made available to FOVI for both mortgage credit and home improvement loans to be originated by the private sector as INVA has already reached its participation limit as specified in the Implementation Agreement.

³Net of L5.2 million of FOVI mortgages which have been assigned to the private sector.

Both the magnitude of new savings and new lending for housing fell far short of the envisaged output targets. Table 2 illustrates that net private deposits of Honduras' specialized savings institutions (S+Ls) grew at an annual average of L6.6 million (\$3.3 million at the official exchange rate) during the 1984-88 period. However, deposit growth between 1987 and 1988 was a mere L1.3 million (\$650,000). The slow rate of growth of net private deposits of the S+Ls can be partially attributed to the overall rate of private national savings; Table 2 demonstrates that private savings as a proportion of gross domestic product has been on the decline since 1985. In absolute terms, private savings declined from a peak of L530 million in 1985 to L502 million in 1988.

Table 3 illustrates that mortgage lending by the S+Ls over the 1984-88 period grew annually at an average rate of L8.4 million (\$4.2 million). As a proportion of all private real estate lending, that provided by the S+Ls has declined from over 71 percent in 1984 to 69 percent in 1988. Mortgage lending by the S+Ls as a proportion of total lending by the private sector also declined during the 1984-88 period. Mortgage lending by commercial banks, the only other source of mortgage credit available from the formal financial system, increased by an even smaller annual average rate of L5.6 million (\$2.7 million) over the same period. However, the commercial banks' share of total mortgage lending, almost exclusively to high income earners for short terms, increased from just over 28 percent in 1984 to 31 percent in 1988 (Table 3).

The low level of mortgage lending during this period was primarily directed towards the financing of a relatively small number of houses produced by the formal sector which were affordable to upper income households. Available housing statistics indicate that only 5,954 residential units were constructed during the 1985/86-1987/88 period, an average of less than 2,000 annually, in Tegucigalpa, San Pedro Sula and La Ceiba. The average cost of these homes was L48,495 net of the value of land (Table 4). During the 1986-89 period the S+Ls presented FOVI with 2,552 home mortgages for discounting. Of these, 1,805 or 70.7 percent were mortgages for units under L21,000 corresponding to S+L participation in the Urban Poor II Program. The remainder of these FOVI-discounted mortgages were for housing exceeding L21,000. Mortgages for housing valued between L21,001 and L25,000 represented 9.3 percent of the S+L portfolio, those between L25,001 and L45,000 represented 10.5 percent of the portfolio, units between L45,001 and L65,000 accounted for 8.0, of total mortgage lending and housing valued in excess of L65,000 represented 1.5 percent of the mortgage portfolio of the S+Ls which was discounted by FOVI (Table 5).

3.1.2 The Honduran Mortgage Market

The National Housing Finance Agency (FINAVI) was created as an independent government agency in the early 1970s to regulate and supervise the S+L system, to provide rediscounting facilities to the system and to administer a system of mortgage default insurance. FINAVI's failure to adopt effective techniques to recover the cost of its housing investment led to its decapitalization and eventual abolition in 1984.

FOVI, technically an entity of the Ministry of Finance and Public Credit but administratively part of the Central Bank, began its operations as a second-tier lender in 1986 retaining only the mortgage rediscounting function of FINAVI. This enables eligible lenders to refinance their housing loans through FOVI on a long-term basis, thus minimizing term risk and providing needed liquidity to the system. However, FOVI's sources of funds are rather limited and are subject to variables beyond its control. Besides its initial capitalization, these include reflows from the FINAVI portfolio, external resources provided by the Housing Guaranty Program (directly and also indirectly through the Central American Bank for Economic Integration, CABEI), and proceeds from bond issues. These bond issues are subject to Central Bank approval which, presumably, is determined by the competing needs of the central government for deficit financing. Insurance companies also provide a limited amount of funds through mandatory holdings of certificates of deposits dating back to the FINAVI program.

Overall, FOVI's operations include six housing programs, four urbanized lot programs, and three home improvement loan programs. HG resources have been allocated to one program in each of these three areas. At end-1989, FOVI's portfolio consisted of 5,620 mortgages valued at L82.1 million. Net of the Urban Poor II Program, FOVI's portfolio consisted of 2,605 mortgages valued at L42.8 million (Table 1).

FOVI requires all S+Ls to participate in its programs; at end-1989, the value of mortgages originated by the S+Ls for new housing, urbanized lots and home improvement loans represented 66 percent of FOVI's total portfolio. Not including the mortgages presented by the S+L system under the Urban Poor II Program, S+L participation in the FOVI program accounts for 60 percent of the remaining portfolio. Commercial banks are also eligible participants but to date only one bank has participated on a very limited basis. As a result of a recent operational change within FOVI, an additional four NGOs have been approved for participation in the rediscounting program bringing the total number of eligible NGOs to five. At end-1989, mortgages originated by NGOs represented over 18 percent of the value of FOVI's total portfolio. The value of INVA's mortgages was equivalent to about 15 percent of the FOVI portfolio at the end of 1989 (Table 1).

3.1.3 Savings Mobilization

The Honduran savings and loan system was established during the early 1970s to serve as the primary source of housing finance. But since their inception, the S+Ls have proven to be particularly weak at mobilizing domestic resources. Resource mobilization is, however, an absolutely crucial element in the functioning of an effective housing finance system. Although the Honduran S+Ls are the only specialized institutions in the housing finance system attracting voluntary savings for housing, they are raising only a fraction of the resources necessary to finance housing investment. This is the result of several complex factors including the fact that the majority of housing investment in Honduras has not come from voluntary domestic savings but from four alternate sources which are independent of the housing finance system: a)

mandatory contributions to the three public pension funds and the social security system; b) external resources in the form of grants and loans to various housing finance institutions from international donors; c) central government budgetary allocations to INVA; and d) central government borrowing through bond issues. The overall effect of this phenomenon is that the formal housing finance system simply acts as a conduit to channel external resources or resources from elsewhere in the economy into housing investment.

The dominant constraint faced by private housing finance institutions is a lack of long-term domestic savings to match long-term mortgages. The three public employee pension funds are currently generating large annual cash surpluses which could be offered to the S+Ls and housing-related NGOs on a competitive basis. However, the pension funds have chosen to develop housing projects themselves, sell finished housing to their members, and finance mortgages at below market rates which serve as a means of increasing their members' overall compensation.

Besides this preference for subsidizing their members, the pension funds and other cash rich institutions such as the insurance companies cite repayment risk as a reason for not lending surplus funds. Loan delinquencies have traditionally been a problem in Honduras and the foreclosure process is cumbersome and lengthy. A 1988 study of the country's credit policy revealed that various commercial banks faced serious problems associated with loan recovery. In some instances nonrecoverable loans exceeded the banks' combined capital and reserves.⁴ The public sector's experience with long-term mortgage lending also contributes to the repayment risk perception. At the end of 1987, delinquencies amounted to nearly 70 percent of INVA's loan portfolio. Although the level of delinquencies has improved in recent years, this perception still persists. Not surprisingly, the pension funds and insurance companies have expressed an unwillingness to invest in mortgage-backed securities.

There is a reluctance on the part of these institutions and other holders of wealth to invest their long-term savings in the housing sector for additional reasons as well. Since mortgages are issued at fixed interest rates and, except for FOVI discounting, must be financed by short-term deposits, lenders assume all risk of future inflation, future interest rate escalation, and future devaluation, in addition to liquidity risk if political and/or economic events force savers to withdraw their deposits from housing finance institutions. Given the actual or perceived possibility that these events will take place in the near- to medium-term, the pension funds, insurance companies and other wealth holders naturally prefer to invest their surplus funds in short-term government bonds paid at par on demand.

⁴Webb, et al., Credit Policy in Honduras in the Context of Macroeconomic Constraints (Report to USAID/Honduras, May 1988).

3.1.4 Private Sector Preference for New Shelter Construction Versus Home Improvement Loans

Of the L28.5 million in mortgages presented by the S+Ls for FOVI discounting under the Urban Poor II Program, 98.1 percent represented mortgages for new shelter solutions, and the remainder were for home improvement loans. Given the fact that Honduras' six S+Ls belong to vertically integrated financial consortia consisting of commercial banks and developers, the consortia were eager participants in the Urban Poor II Program. They naturally viewed this as an opportunity to maximize profit and minimize risk without having to use their own resources. The developers were eager to develop housing projects, construction financing was available from the consortias' commercial bank members and the S+Ls had access to a 100 percent rediscounting facility for long-term mortgages. As a result, housing production was emphasized at the expense of home improvement loans which would have limited the consortia members' overall participation.

Repayment risk (cost recovery) also influences the S+Ls' investment decisions. According to S+L management, the major risk is that associated with unemployment. The S+Ls fear that individuals who become unemployed will fail to make mortgage payments yet occupy the house for several years while the cumbersome foreclosure process takes its course. As a result, the S+Ls' preferred clientele are higher income borrowers who have inherently more stable employment.

Given AID's limitation on the family incomes of those eligible for the Urban Poor II Program, the S+Ls responded by producing and financing housing which conformed to the upper limits of cost imposed by the Implementation Agreement. For Tegucigalpa, a house selling for L21,014 is considered by AID to be affordable for those with incomes at or below the 50th income percentile. The comparable figure for San Pedro Sula is L15,553. Table 6 illustrates that the selling prices of the majority of new houses produced and financed by the S+Ls in Tegucigalpa and San Pedro Sula were L21,000 and L12,900, respectively.

An advertisement by one of the participating S+Ls clearly indicates that higher income borrowers were the target participants in the program (Annex G). Beneficiary income data provided by FOVI and presented in Table 7 indicates that the S+Ls, the NGOs, and INVA sold 750 houses whose mortgages were discounted by FOVI to families earning more than L900. This corresponds to 28.8 percent of all families receiving mortgages credits under the programs. AID established upper income limits which were set forth in the Implementation Agreement as L938 for Tegucigalpa and L698 for San Pedro Sula. These income limits were later raised by AID to L993 and L734 for Tegucigalpa and San Pedro Sula, respectively.

FEHCOVIL, one of the NGOs participating in the Urban Poor II Program, has long been active in Honduras' shelter sector. Traditionally involved in housing production, it too showed a preference for new housing production over home improvement loans (Table 1).

3.1.5 Ability of Non Governmental Organizations to Reach Lower Income Groups

The creation of FOVI in 1986 provided the Honduran housing finance system with a needed rediscount facility which had been absent since the demise of FINAVI. For the vast population of lower income families, however, the creation of FOVI did not lead to an improvement in shelter conditions since the majority of these families did not have access to formal financing for new construction and home improvement.

It is important to note that Honduras has a strong NGO community, great in numbers, diverse in focus, satisfactory in effectiveness. NGOs are a resource that traditionally has been able to tap the capacity of the otherwise unreached informal sector. It is in this context that NGO's have been viewed as potential promoters of housing for low-income families.

Until recently, eligible participants in FOVI's rediscounting program included the S+Ls, the commercial banks, FEHCOVIL, and INVA. AID's policy discussions with FOVI prompted a major operational change within that institution which has led to the opening of the discount facility to four additional NGOs dealing with the informal shelter sector. These include Centro San Juan Bosco operating in Tela, Asociacion San Jose Obrero which carries out its activities in the Choluteca area, the Asociacion de Promocion Humana (APRHU) operating throughout the country, and the nation-wide Honduran Federation of Credit Union Associations (FACACH).

The diversity of these newly eligible NGOs will enable them to respond to the multidimensional nature of informal sector households through appropriately designed shelter programs including new construction, home improvements, and urbanized lots. Moreover, they operate in low-income communities where formal financial institutions do not and are generally viewed as advocates of the people with whom they work; indeed, informal sector households are traditionally reluctant to become involved in formal matters financial credit. Although these NGOs have now been linked to the formal sector and as such can now serve as a bridge to the informal sector, barriers nevertheless remain within the formal financial system that make it difficult for the NGOs to reach lower income families. Foremost among these barriers is FOVI's insistence on mortgages as loan guarantees.

Based on the experience of Honduras' NGOs involved in the shelter sector, it appears that the most effective strategy for reaching lower income groups is with small home improvement loans. This was proven to be the case in Tegucigalpa where empirical research demonstrated the cost effectiveness of self-help construction aided by home improvement loans relative to investment in finished housing.⁵ Nevertheless, NGO representatives indicate that most potential borrowers are resistant to mortgaging their entire home as collateral in order to receive a small upgrading loan.

⁵Kerley, et al., Investigacion sobre la Vivienda Progresiva en Honduras y Costa Rica, (Report to RHUDO/CA, August 1985).

In an attempt to alleviate the shelter needs of lower income families, NGOs have been flexible in accepting alternative guarantees for home improvement loans. However, FOVI-eligible NGOs will not be able to refinance their home improvement loans because they cannot present mortgages as loan guarantees. This poses major liquidity problems for these NGOs since their loan portfolios consist primarily of home improvement loans. Without modifying its policies, FOVI's recognition of NGOs as eligible participants in its rediscounting program will not bring about any appreciable change in the shelter status of low-income households. Nevertheless, the introduction of alternative guarantees into the FOVI program could subject FOVI's portfolio to unnecessary risk and thus threaten its soundness and public image.

3.1.6 Land Tenure and Its Relationship to Mortgage Credit

Problems associated with insecure land tenure in Honduras' cities have important implications in terms of a family's ability to access formal financing for new construction or home improvement. A forthcoming study of land tenure conducted by the Cooperative Housing Foundation indicates that families in upwards of 175 barrios in and around Tegucigalpa either do not have secure tenure or illegally occupy their individual plots of land.

Lower income families generally cannot afford to purchase land with secure tenure so land is acquired in one of three ways: the purchase of plots situated on "dominio pleno", that is, land for which there is clear title but which has been illegally subdivided by landowners and sold to lower income households; illegally occupying "dominio pleno" land; or the illegal occupancy of "ejido" or municipal land. In any of these cases, the households involved will not be granted a clear title to "their" land as required by formal financial institutions for mortgage credit and which is a prerequisite for participation in the FOVI rediscounting program.

3.2. Urban Development

This evaluation occurred several weeks after a nationwide election and only three weeks after local officials had been in office approximately three weeks. The effectiveness of the transition from defeated officials to newly elected ones was mixed. Some new officials were quite knowledgeable about the Urban Poor II Program while others were not well informed. In the case of San Pedro Sula and La Ceiba, an effective information exchange apparently took place; the new municipal officials were well versed about the project.

Evaluation findings related to the urban development component are presented below in individual case studies. Dramatic differences exist among the seven participating municipalities -- in size, economy, capacity, and private sector interests. The analysis of each municipality considers the Program's successes, failures, and constraints. Effectiveness is judged in terms of impacts on beneficiaries and policy changes, as well as important measureables of project execution and cost recovery.

3.2.1 Municipal Government Capacity In Primary Cities

3.2.1.1 Tegucigalpa

Although the Municipality of Tegucigalpa has benefited from several Urban Poor II projects, the movement towards effective urban development has been slow, resulting in a continuing reduction in AID allocation for the Municipality. During 1988, Tegucigalpa and San Pedro Sula negotiated with the Ministry of Finance and AID for the formation of a \$10 million common fund for urban development projects in both cities. New disbursements were to be made on a "first come, first served" basis to those Municipalities that could present sound projects for the development of urban infrastructure.

From 1987 into 1988, the Municipality of Tegucigalpa was only able to allocate approximately \$3.3 million of their allocated \$5 million. The Municipality proposed 15 projects of which only eight were implemented. Problems reflected the fact that some Tegucigalpa communities, such as Colonia San Martin, were too poor to be able to afford the projects; their incomes were too far below the median to be able to repay their share of project costs. Other Tegucigalpa communities, such as Santa Fe, Torocagua, Chile, and San Cristobal, had originally sought urban infrastructure projects, but cost estimates showed the projects too expensive. In addition, certain Tegucigalpa communities such as La Esperanza, San Juan de Dios, and Ruta Divanna, presented problems of land tenancy.

The constraints that the Municipality of Tegucigalpa faces in delivering urban infrastructure to its low-income population can be summarized as follows:

1. **Topography.** A large percentage of the low-income communities are located on land with slopes up to 19 percent and on rock soils. Both facts have made urban infrastructure projects physically difficult and quite expensive to implement. In Barrio Los Indios, for example, engineers suggest that these constraints delayed project completion and resulted in cost overruns.
2. **Potable water provision.** SANAA is the water and sewerage authority with jurisdiction in almost all Municipalities in Honduras. Coordination between the Municipalities and SANAA has been problematic. Without control over these basic services, it is difficult for a Municipality such as Tegucigalpa to plan and provide for urban growth. The lack of potable water has become a serious barrier to urban development in Tegucigalpa where, according to the Implementation Unit, 45 percent of households are without potable water. Presently SANAA is working on an emergency plan for temporarily increasing the water supply; however, considerable increases in water supply are not expected until the Rio Grande dam becomes operational in the mid-1990s.
3. **Land tenure.** The urban area in Tegucigalpa is over 200 km² of which nearly 40 percent is located on "ejidos" (designated public agriculture land now in urban areas) inhabited by individuals under the terms of "dominio util". This form of land tenancy causes serious problems in planning for infrastructure upgrading. San Juan de Dios, for example, was a project for which the municipality could not secure funding because the community was unable to purchase land from those living on it; the available titles only

showed that the lands were "ejidos". A prerequisite for urban development projects financed by AID is that the beneficiaries possess a clear land title, be it in "dominio util" or "dominio pleno". The Municipality can only recover the lands through legal means by proving that such lands are no longer available for agricultural purposes. This litigation process is difficult and time consuming.

4. Administrative capacity. The Municipality of Tegucigalpa is considered the most politicized Municipality in Honduras. Political appointments and other questionable public service practices have resulted in an unwarranted increase in the number of municipal employees, now numbering over 3,000. Resources have been redirected from development programs to augment ease the payroll and overhead costs. An indirect consequence of local politics has been the Municipality's inability to provide a strong sense of community involvement in the city. As a result, there is limited participation of community based organizations and the private sector in projects promoted by the Municipality.

An Implementation Unit was created in 1981 to strengthen the urban development programs in Tegucigalpa. Presently 70 percent of the programs implemented by the Unit are financed under the Urban Poor II Program while the remaining 30 percent are financed by other bilateral and multilateral agencies and by the Municipality itself. The Implementation Unit has a total of 68 employees, of which 28 are technical staff and the remainder administrative.

Under the Urban Poor II Program, the Municipality of Tegucigalpa has undertaken the execution of eight projects intended to benefit nearly 12,000 people. Sewerage projects were implemented in the communities of La Pradera II, El Rincon, and La Trinidad, while pavement projects were implemented in the communities of Lempira, Bella Vista, El Calvario, Los Profesores, Las Mercedes III, and Los Indios.

To date, 75 percent of these projects have been completed. Delays and increases in costs have occurred due mainly to changes in the original design. For example, after initiating certain paving projects, contractors found that existing water and sewerage systems were in such a state of disrepair that they needed replacement.

Urban Poor II has contributed L5,579,593 to these projects. These funds have been matched by L1,341,039 from the Municipality. Cost recovery efforts are undertaken as soon as projects are initiated, and as of December 1989, the Municipality has recuperated L434,277 or approximately eight percent of costs.

Cost recovery appears to be a function of income levels and public promotion efforts. For example, 40 percent of costs have been recovered in Barrio Lempira, a community with a relatively good standard of living, while only four percent have been recovered in El Calvario, a community with a very low-income level. The Implementation Unit observed that cost recovery increased more than ten percent when neighborhood promotion campaigns were carried out. Cost recovery has commenced without problems in Los Indios in spite of the fact that the project is presently encountering lengthy delays.



Las Mercedes, Tegucigalpa

In terms of project impact, one of the most positive accomplishments of Urban Poor II has been the formation of new community based groups. In Las Mercedes III, the leader of the local "patronato" (neighborhood organization) sees strong evidence that community groups are interested and capable of generating urban infrastructure projects. There is widespread interest in creating new "patronatos" and neighborhood committees. The Municipality has received many requests from different groups which have decided to organize themselves in pursuit of urban upgrading projects.

Despite some accomplishments under the Urban Poor II Program, Tegucigalpa still suffers from a limited capacity to plan and provide needed urban services. The loss of project funds from Urban Poor II (reallocated to San Pedro Sula) has not resulted in any noticeable improvements in the Municipality's managerial and technical capacity.

3.2.1.2 San Pedro Sula

San Pedro Sula is an industrial city and the center of economic power in Honduras. Over 50 percent of the total industrial production of Honduras is concentrated in San Pedro Sula.

The Municipality of San Pedro Sula is the only municipality in Honduras in which a traditional municipal government still retains effective control over

urban services. Until SANAA was created, almost all municipalities had control over the provision of potable water. Of the seven participating municipalities, only San Pedro Sula has managed to retain this control through the Division Municipal de Aguas (DIMA). By retaining such control the Municipality of San Pedro Sula has eliminated many of the difficulties associated with inter-institutional relationships experienced by other municipalities.

The Municipality of San Pedro Sula has been generally successful implementing the Urban Poor II Program. Indeed, it has been able to secure and utilize funds beyond its original allocation under the Program. The amount allocated by the Urban Poor II Program for basic infrastructure projects in Honduras was \$20 million of which \$5 million was identified for San Pedro Sula, \$5 million for Tegucigalpa, and \$10 million for other secondary cities with populations in excess of 10,000. Since the Municipalities of the secondary cities were slow in implementing their urban development programs, the Municipality of San Pedro Sula negotiated with the Ministry of Finance and AID for the transfer of additional funds to San Pedro Sula. The Municipality planned 19 additional projects, requested financial assistance for the implementation of an urban study, and initiated the construction of 5,000 sites and services plots. As a result, the Municipality of San Pedro Sula received an additional \$5 million from the funds originally designated for secondary cities, and \$1.7 million from funds originally designated for the Municipality of Tegucigalpa.

Though the reassignment of funds represents a significant change from the original allocation of funds, it also reflects a flexibility in the original project design. The successful experience of San Pedro Sula appears to justify the transfer of funds from other more needy areas to San Pedro Sula.

The disbursement of this additional \$5 million was subject to the adoption of key policy and institutional changes oriented toward the improvement and sustainability of the urban development system in San Pedro Sula. Policies have focused on land use controls, the mobilization of resources; land tenure; and reduction of the public sector role and increased private sector and participation.

In reviewing the many projects implemented by San Pedro Sula it is clear that the Municipality has moved and continues to move toward the adoption of sound urban and financial policies. This has been possible primarily because San Pedro Sula has a strong and sound municipal government which is reasonably capable of managing its human and financial resources, as well as its administrative bureaucracy. Similar changes in policy and programs may find limited replicability in other municipalities of Honduras which are generally weak and heavily dependent on the central government. In order to replicate San Pedro Sula's success in other cities, their capabilities, levels of resources, and self-reliance must be strengthened.

The two projects implemented by the Municipality of San Pedro Sula -- Calpules and La Metropolitana, described below -- reflect its creativity in developing new policies to improve the execution of specific projects.

a) Calpules. One of the more interesting experiences of Urban Poor II is the project of Calpules. Initiated in 1987 with financial assistance from AID and the Municipality, the final phase of this project included the development of serviced lots to relocate 3,200 low-income families from adjacent sites on San Pedro Sula's major river systems (lands ceded for future development in the public interest) to Calpules. The Municipality is responsible for providing streets in the project and DIMA is responsible for providing potable water and sewerage systems. At present, the project has 1,830 lots of about 123 square meters each.

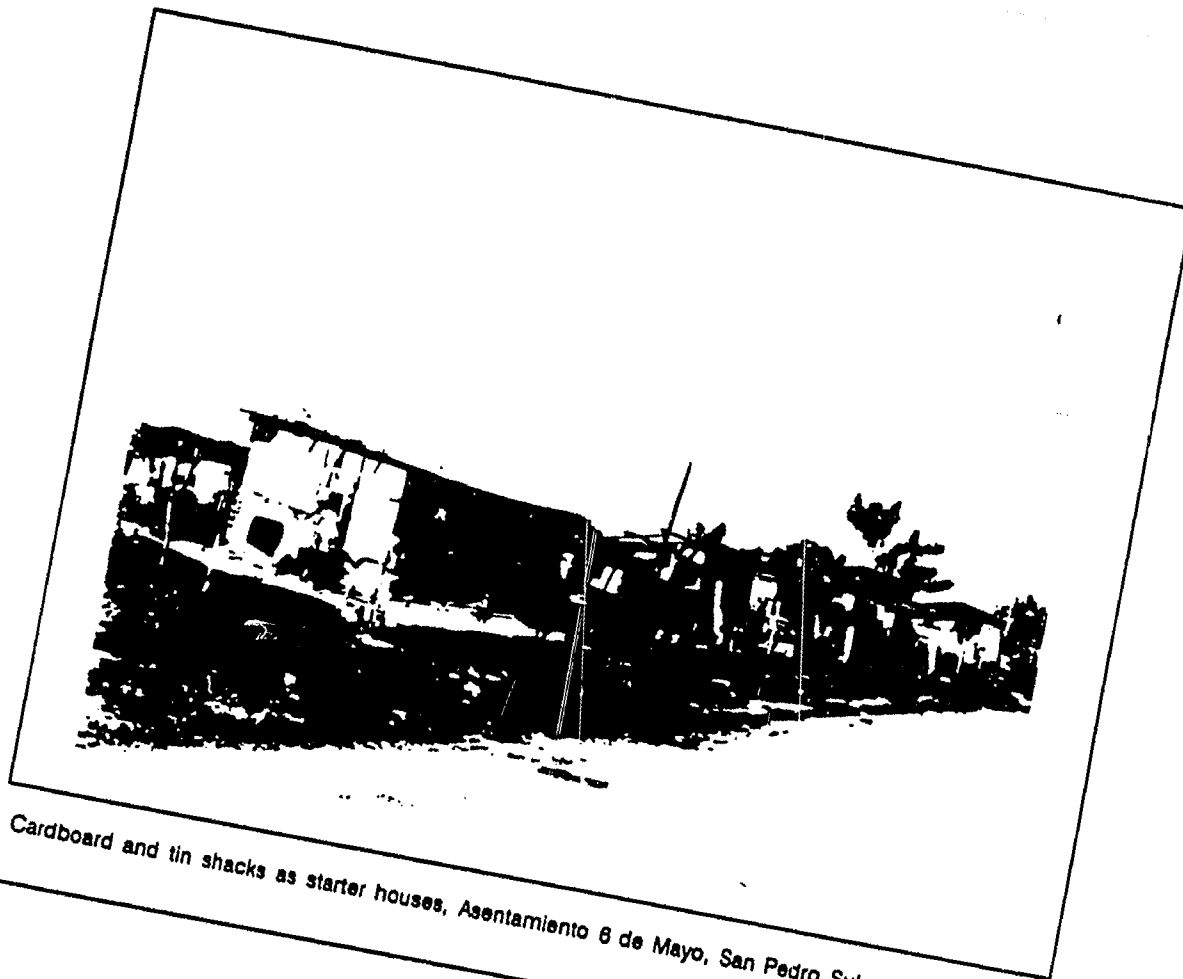
The private sector plays an important role in Calpules. Land being used for relocation is privately owned. Through a series of incentives and value-added improvements, the owners agreed to sell 60 percent of the land under municipal guidelines to targeted beneficiaries. The remaining 40 percent of the land can be privately negotiated by the owners at market values.

Traditionally the private sector has been reluctant to participate in urban projects for low-income families due to the risks involved, low profit potential, and cost recovery problems. In Calpules, however, these factors have been minimized: the Municipality guarantees 60 percent of the purchasers. The potential new owners foresee for the first time a real opportunity to acquire land with a clear title, while allowing for commercialization of the other 40 percent of the land by the original land-owners. The reduction of the plots from standard sizes has also facilitated the increased commercialization of the land. In terms of cost recovery the new beneficiaries receive a single bill which includes payments to the Municipality and to the original landowners. If a household fails to pay, DIMA will temporarily suspend water service to the individual plot.

Calpules has improved progressively throughout the life of the project. Housing is being upgraded from shelters made of plastic and industrial waste, to units built with permanent materials such as block cement and zinc roofing.

This project presents clear evidence that when families are provided with land tenure and basic services, they have the interest and apply their limited resources to dramatic home and neighborhood improvements.

The success of this project must be understood in the context of several in-kind contributions that are integrated into the project. DIMA designed the project, opened streets, developed the plots, and acted as the financial intermediary which allowed for a reduction of site construction costs, interest on loans, and collection fees for project beneficiaries. The actual physical transfer of families to Calpules utilized trucks in which the inhabitants carried their personal belongings as well as construction materials used at their former sites; this contribution is an important ingredient of the project. These contributions make the project much more acceptable to the beneficiaries and must be taken into account for any replication.



Cardboard and tin shacks as starter houses, Asentamiento 6 de Mayo, San Pedro Sula.



Self-help homes improved with own resources, Calpules, San Pedro Sula.

b) **La Metropolitana S+L.** A disbursement of \$5 million from the Urban Poor II program to San Pedro Sula was subject to the adoption of policies encouraging private sector efforts to increase shelter and urban infrastructure in low-income settlements. The Municipality involved commercial banks and other private financial institutions in a competitive bidding process and the Municipality agreed to deposit \$5 million with the winning institution who would then provide an equivalent sum for urban development. The award was to go to an organization which would lend money at the lowest rate while providing the best match of funds to the Municipality's commitment.

La Metropolitana S+L won the competition. For each dollar deposited by the Municipality, La Metropolitana agreed to provide \$1.03 while allowing beneficiaries to receive loans at a 14.5 percent rate of interest.

La Metropolitana S+L understands that its major challenge is to establish an effective mechanism to recover costs since it will have a large number of small accounts to administer.

As discussed earlier, private financial institutions have hesitated to participate in urban development projects for low-income families because of the risks and low rates of return. For traditional projects, municipalities have standards which regulate the size of the lots, streets, green areas, and front and side setbacks. Under these land use and zoning regulations, between 40 and 50 percent of the land remains for commercialization. In this case, the Municipality granted special conditions and reduced standards to allow La Metropolitana to commercialize approximately 70 percent of the urban site. To ease the process, the Municipality of San Pedro Sula has developed a system to eliminate unnecessary delays. The different steps for project approval are depicted graphically in Annex H.

At the time of this evaluation, final steps were being taken to deposit the first funds with La Metropolitana. The success or failure of this model will have an impact on the delivery of new shelter for low-income families throughout Honduras and elsewhere. Private financial institutions are not presently playing a role in the production of low-income housing in spite of tremendous need for such housing, estimated at about 5,000 to 6,000 units per year in San Pedro Sula. If reasonable profits can be realized from this effort, the strategies utilized in San Pedro Sula for a more active participation between the private financial sector and the public sector should be introduced and promoted in other municipalities that are receptive, such as La Ceiba, and to a lesser degree Siguatepeque.

3.2.2 Municipal Government Capacity In Secondary Cities

Local municipalities' loss of control to central government is most evident in secondary cities. Autonomous centralized parastatals, such as ENEE, HONDUTEL and SANAA, are providing nearly all basic services to secondary cities, leaving only waste disposal management, markets, slaughterhouses, etc. to local government. At present, Honduran municipalities are weak institutions which administer limited resources and have few means to generate their own revenues.

The following section describes the performance of the Urban Poor II Program in secondary cities. The five cities participating in the program were selected based on a high degree of potential and interest in developing urban infrastructure projects.

3.2.2.1 La Ceiba

La Ceiba is the third largest city in Honduras in terms of population and economic activity. The present population of La Ceiba is estimated at almost 70,000, with an annual rate of population increase of over four percent. Its present economy has been heavily influenced by the actions of the Standard Fruit Company. Between 1982 and 1984 the company reduced its labor force dramatically causing a recession, which in turn triggered migration to other urban centers leaving a disorganized pattern of urban development.

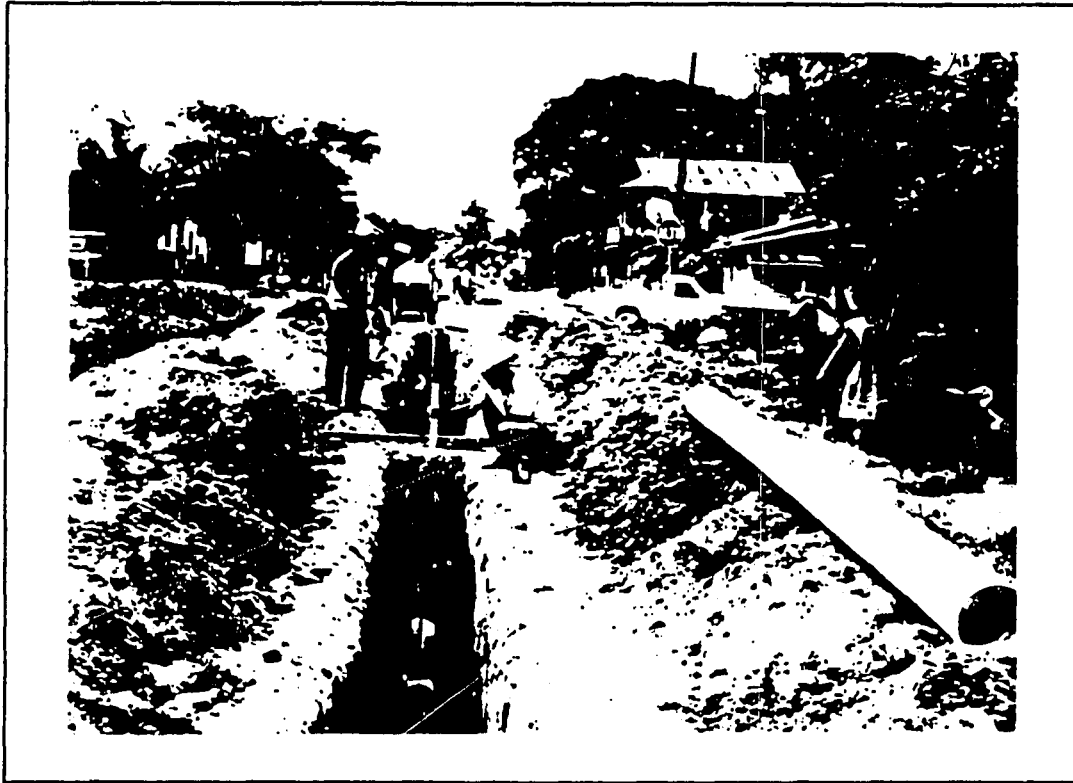
Among secondary cities, La Ceiba is the only Honduran city clearly progressing toward the adoption of policies leading to an expansion of economic and urban development. In response to an AID initiative to increase cooperation between municipalities and the private sector, La Ceiba signed an agreement with the local Chamber of Commerce to create an Implementation Unit for Urban Development. The main objective of this Unit is to define new policies and strategies in order to promote the orderly development of the city for the next five years.

This joint public/private effort is a unique formula to improve the local economy while promoting urban expansion and development. Although the Unit has hired only two people -- an architect specializing in urban planning and a secretary -- it has been able to secure external funds to support its work. The technical assistance portion of the Urban Poor II Program is funding a study on urban and economic development in La Ceiba. The study seeks to develop policies to strengthen the capacity of development institutions, to prepare a legal framework to support economic and urban development, to prepare urban plans for areas with high rates of growth, and to consolidate urban areas in order to facilitate the provision of urban infrastructure.

The Implementation Unit for Urban Development is housed in the local Chamber of Commerce which pays the staff salaries. However, the formal inter-departmental relationship between this Unit and the Implementation Unit of the La Ceiba Municipality is not clearly identified. The situation provides the opportunity for the Municipality to take the initial steps toward combining the two units into one municipal planning office.

The Implementation Unit of the Municipality has a staff of four -- an engineer, an administrator, a promotor, and a secretary -- functioning in a well equipped office. Their responsibility includes two sewerage projects which are to benefit more than 7,000 people. Construction work was initiated in the communities of La Isla, La Julia, La Gloria, and La Barra in February 1989 with a construction schedule of seven months. Original costs which were estimated at L700,000 will finally reach L886,307. Increases in cost and delays were due primarily to modifications in the original design, and delays

in the acquisition of construction materials. Although these projects were officially completed in November 1989, they have not become fully operational because the construction of a sanitary collector is not scheduled for completion until June 1990. SANAA is implementing the off-site works financed by the Employment Generation Project. Technical differences between these institutions has been difficult and complex resulting in project delays.



Infrastructure line, La Ceiba

The La Ceiba Municipal Implementation Unit expressed serious concern with these delays since the municipalities must absorb the consequent extra expenses. At this writing, the Municipality has been able to recover about L100,000 for the project.

At present, a second group of projects is being implemented in the communities of Alvarado, Zelaya and Bella Vista. Projects were started in November 1989 and are expected to be completed by June 1990 and are being executed very efficiently. Construction work is progressing so rapidly that it is estimated that the schedule for these projects will be reduced to six months. As projects move toward completion, the issue of infrastructure maintenance arises. There is no evidence to suggest that the municipality is preparing both financial and physical plans to ensure the continued operation of the systems.

3.3.2.2 Tela

The United Fruit Company arrived in Tela in 1953. For many years employment and economic development were heavily dependent on agricultural exports. In 1985 the United Fruit Company ceased operations in Tela resulting in a major negative impact on its economy.

One of Tela's sources of economic growth is tourism, but its expansion is constrained by the lack of urban infrastructure. The sewerage system of Tela is one of the worst systems in Honduras; it is largely inadequate and generating serious environmental problems and hazards. The sewerage system contaminates sea waters adjacent to Villas Telamar, the most important tourist resource in the region.

The implementation of the urban development project in Tela is expected to decrease environmental contamination by 70 percent. The project will benefit over 6,700 people northeast of Tela in the communities of Terencio Sierra, Lempira, Highland Creek, Suyapa, Morazan, and Buenos Aires, at a cost of L1.5 million. The Municipality is providing L139,237, and the Employment Generation Project is providing L1.1 million.

The Implementation Unit of Tela is staffed by an engineer, an accountant, and a secretary in an office with limited equipment with which to operate effectively.

The project has experienced substantial delays and only 18 percent of its intended outputs have been completed. Delays have been caused by heavy rains, a lack of labor available at the prices stipulated by the project (minimum rates), and the cost of construction materials which increased significantly during a particular four month period (e.g., by 24 percent, 7 percent, and 9 percent). Delays are also the result of technical disagreements regarding the design of the collection and discharge of the sewerage system. The system that was submitted for financing under the Urban Poor II Program in August 1989 did not include a design for off site infrastructure.

Employment Generation Project personnel have suggested that the coordination of projects which receive funding from more than one source is very weak. They believe that the lack of coordination experienced during the project affects cost recovery and results in losses to sponsoring institutions, municipalities, and beneficiaries. In addition, the target population of the Tela project financed under Urban Poor II was reduced from the originally planned 1,176 beneficiaries to now only 700 or less, because of cost increases. At this writing, most implementation problems have been resolved; completion is expected by November 1990.

The fact that the Urban Poor II Program has utilized funds from other sources not contemplated in the original project design has had a positive impact. AID's ability to allocate resources for urban infrastructure projects has increased the leverage of Urban Poor II by expanding available funding. In addition, the EPG's preconditions for the use of labor intensive techniques and for the purchase of materials from local industries, has generated direct employment in those communities which are participating in the project.



Barrio Lempira in Tela will benefit from sewerage system.

3.2.2.3 Comayagua

Comayagua is located in a fertile agricultural valley and has been the country's major vegetable producer for the past 25 years. Its present population is about 61,000 with a rate of population growth at 6.5 percent. Its economic activity has been greatly influenced by a cement plant which has also provided for well paved streets in Comayagua. Sewerage and potable water systems are a problem in Comayagua; 30 percent of households are without potable water and 65 percent are without sewerage disposal services.

Under the Urban Poor II Program, urban infrastructure projects were implemented in two neighborhoods in Comayagua. The first project, a sewerage system, was completed at Santa Lucia at a cost of L357,635. It was completed according to the original schedule in December 1989 and benefited nearly 1,000 people.

A sewerage system with a collector was constructed in the community of San Francisco at a total cost of L476,000. The project was completed in December 1989 with only a month delay attributable to the administrative process which took place prior to project startup. Construction companies are required to deposit a security fund that guarantees that the project will be executed on time. In this case, the selected construction firm was unable to meet this requirement in a timely manner.

The San Francisco community presents an interesting contrast to most other communities visited during this evaluation. Based on neighborhood observations, it appears that the standard of living in San Francisco is above the level required to qualify for low-income projects. The construction of many new houses by upper income families is evident. (Similar situations were observed in Lempira in Tegucigalpa and in most projects in La Ceiba.)

This situation is of concern because, as indicated in the table below, the income of about 42 percent of the households in San Francisco is above the established median income levels (33 percent in Santa Lucia), although average incomes remain below the established level. With about 22 percent of the San Francisco plots vacant, and urban services not provided in traditionally higher income neighborhoods, San Francisco is attracting a higher income group.



Sewerage and water system on street in Barrio Santa Lucia, Comayagua.

According to AID affordability and eligibility criteria for beneficiaries, project costs are to be kept at a level that allows benefits to be affordable to families whose monthly incomes are below the median monthly income for the area in which the project is located. The applicable median monthly income for secondary cities is L496.

Monthly Median Income Levels in Two Comayagua Neighborhoods
Percent of Households

INCOMES (lempiras)	percent San Francisco	percent Santa Lucia
100-199	2	11
200-299	5	21
300-399	39	19
400-499	12	16
500-599	16	7
600-699	12	4
700-799	12	8
800-899	2	5
900-999	-	2
1000-more	-	7

One impact of Urban Poor II in secondary cities has been the improved capacity of the implementation units to design urban projects to be implemented in the future. This has been observed specifically in Tela, Siguatepeque, and Comayagua. At present, the Implementation Unit of Comayagua has designed ten infrastructure projects that await external funding for construction.

The Comayagua Implementation Unit is adequately equipped with a staff composed of an engineer, a social promotor, an administrator, and a secretary. Cost recovery is carried out on an individual basis and payments are designed according to the ability of the beneficiaries to pay. Total cost recovery at the time of the evaluation is estimated at six percent.

3.2.2.4 Siguatepeque

Siguatepeque is the second largest city in the Department of Comayagua. Recently, Siguatepeque has experienced an increase in economic growth due to the development of the central corridor of the region. The current population of about 40,000 is growing at an annual rate of 5.7 percent. Siguatepeque is the smallest of the five secondary cities in the project.

The potable water system of Siguatepeque is obsolete. In addition, the sewerage system covers a very limited part of the city and lacks an adequate water treatment plant. Sewage discharges directly into the Wique river causing serious contamination. New infrastructure programs are of crucial importance to the future development of Siguatepeque.



Contaminated Rio Zelan in Barrio San Juan, Siguatepeque, will be improved by new collector system.

The Municipality of Siguatepeque is quite interested in collaborating with private voluntary organizations. The Municipality believes that public-private partnerships represent a significant resource. For example, the community of San Juan promoted represent the self-help construction of a sewerage system with funds collected from the community plus technical assistance from the local Engineering Battalion and other voluntary groups.

Perhaps because of this strong sense of community organization, the Municipality of Siguatepeque has been able to manage its projects relatively well with only limited resources. The Implementation Unit of Siguatepeque has a staff of four: an engineer, an administrator, a social promotor, and a secretary. They have no permanent office space in the municipal building and they have very little requisite equipment. At the same time, the staff does not want to increase project expenditures by acquiring furniture and equipment.

In spite of UCAT's efforts on the Work Plan, training, and project promotion, the Implementation Unit of Siguatepeque has had strong disagreements with UCAT which have resulted in a disruption of communication between them. The Implementation Unit asserts that UCAT interferes in the internal affairs of the Municipality. They believe that the technical assistance provided by UCAT does not help, and on the contrary, creates problems difficult to correct. Indeed, they believe that project execution improved "as soon as they stopped listening to UCAT".

The Municipality's Implementation Unit has managed three projects. The first project benefited about 4,500 people in the communities of El Carmen and Suyapa at a cost of L1.8 million. The second project is concerned with the installation of a sub-collector at Wique river at a cost of L165,000. The schedule of both projects was one year. Construction was initiated in February 1987 and was nearly finished by February 1990. The third project is a sub-collector at Celan river, with a cost of L340,000. This project is funded by the Employment Generation Project.

The Implementation Unit has initiated cost recovery programs. It has developed a program which includes meetings with the beneficiaries at the "patronato", repeated visits of the promotor, and advertisements informing of different payment methods. Payments made on a voluntary basis receive a discount. Presently 700 people have begun to pay; L1,000 have been collected from voluntary payments, and L120,000 collected after official collections were started.

3.2.2.5 Choluteca

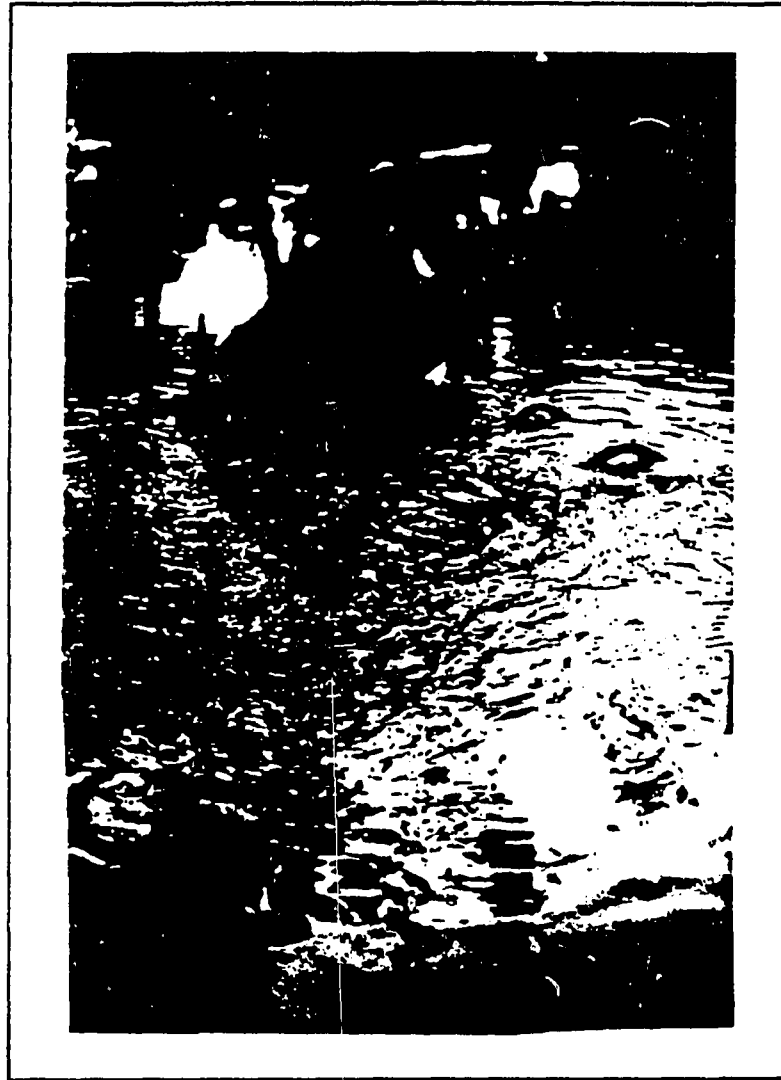
Choluteca has a population of 54,481 and an economic base dependent on livestock. Choluteca has one of the highest percentages of paved roads in Honduras. But as in Comayagua, although city roads are paved, the city is without adequate sewage disposal and potable water systems. It is estimated that 51 percent of the population lack any sewerage and water infrastructure; 4 percent use septic tanks; and 12 percent use latrines.

Choluteca suffers from serious environmental contamination. The old sewerage system broke down a few years ago and has since created a lake of sewage at the community of La Corbeta. Settlements are located less than 20 meters from the discharge area. This situation has also severely affected the communities of Buenos Aires and Pedro Diaz.

The sewerage project, planned to benefit 6,000 people under Urban Poor II, is not being implemented. Choluteca does not have an operating Implementation Unit and the new Mayor is uninformed about the project.

The project design has changed several times. Delays have been caused by the need to construct large off-site infrastructure. Choluteca is to receive funds from the EPG correct the problem at La Corbeta and to provide discharge systems for new projects. The Employment Generation Project staff asserts that delays have been caused by changes in design criteria made by the engineering consultants. Budgets indicated that construction costs were

L250,000, then L900,000, and now L2.5 million. Apparently the problem with the consulting firm was that early designs covered only segments of the project without any solution to the discharge of waste at La Corbeta. A later plan included the design of a sewerage system based on a 20 year master plan which the Municipality of Choluteca has prepared for external funding.



Contamination from broken sewerage system in La Corbeta, Choluteca.

The EGP has only partial funding for the project, lacking L1.7 million to finance the full project. AID recognizes the importance of this project and is reviewing options for eliminating the high levels of contamination that are presently affecting Choluteca.

Project implementation in Choluteca has been constrained by three problems: a) the share of off-site infrastructure that benefits the target neighborhood was not budgeted; b) coordination between the Urban Poor II Program and the EGP was weak. The use of external funds from other sources is a sound way for AID

to increase the leverage of Urban Poor II, but since funding is apparently outside of AID control, inter-institutional coordination must be carefully planned; and c) engineering firms, under contract and managed by the municipality, produced designs based on different criteria. This issue is of particular importance when communities have problems of health, sanitation, and environmental contamination or degradation that are related to urban infrastructure.

3.2.3 Project Execution and Cost Recovery

The average days of project execution and the rates of cost recovery are important variables that help to measure project performance and consequently municipal capacity. The table below presents data that reflects the capacities of the participating cities.

MUNICIPALITIES	CHARACTERISTICS OF PROJECT EXECUTION AND COST RECOVERY							AVERAGE
	TEGUCIGALPA	SAN PEDRO SULA	L. J. REIBA	TELA	COMAYAGUA	SIGUATEPEQUE	CHOLUTECA	
NUMBER OF PROJECTS	8	24	2	1	2	1	1	39
TOTAL PROJECT DAYS	2313	10450	480	365	510	365	270	14753
TOTAL EXTRA DAYS	632	1530	30	1/	30	0	2/	2222
% EXTRA DAYS/PROJECT DAYS	27%	14.6%	6.3%	1/	5.9%	0	2/	15%
PROJECT COSTS (L)	5,579,593	23,438,410	2,068,549	1,540,000	593,958	1,876,292	2,427,652	37,524,454
RECOVERED COSTS (L)	434,275	323,176	91,060	1/	13,406	80,000	0	941,917
% TOTAL RECOVERY 3/	7.8%	1.4%	4.4%	1/	2.3%	4.3%	0	2.5%
% COST RECOVERY/MONTH 4/	0.62%	.82%	.50%	1/	.25%	.36%	0	51%

1/ Under construction, but cost recovery not started.

2/ Project not started.

3/ Based on lempiras collected.

4/ Based on the monthly rate of collection.

Although some projects have experienced serious delays, overall Urban Poor II projects have averaged delays of 15 percent, or 80 days, in the 28 projects in progress or completed. The most serious delays were usually caused by inclement weather, a lack of labor available at the prices stipulated by the project, the cost and acquisition of construction materials, contracting processing, and changes in designs.

The fact that the Siguatepeque project, benefiting 4,500 persons in three neighborhoods, was not delayed at all, reflects the effectiveness of the Urban Poor II program assistance to municipal management, as well as the city's intrinsic community organization. And, the 15 percent average delay of the 24 San Pedro Sula projects is evidence of that city's capacity. Conversely, the delays of 27 percent in the eight projects in Tegucigalpa reflect its weak management capacity.

It should be noted that for many of the municipalities, this program was the first time they had been directly involved in project execution. This is particularly important in the context of the view that many citizens hold that a debt to a national agency providing local services (e.g. SANAA) is not to be taken very seriously. While project execution data provides a measure for project performance, cost recovery data suggests the likelihood of sustainability.

The amount of total costs recovered is certainly important, but a better suggestion of project sustainability is the rate by which a municipality collects beneficiary payments.

Most cost recovery efforts started later in San Pedro Sula (mid-1989) than in Tegucigalpa (mid-1988). Thus, although total recovery amounts to 7.8 percent in Tegucigalpa and a lower 1.4 percent in San Pedro Sula, the actual monthly rate of recovery in San Pedro Sula indicates a better performance. The monthly rate of recovery in San Pedro Sula is 0.82 percent against 0.62 percent in Tegucigalpa. These percentages are followed by La Ceiba with 0.50 percent and Siguatepeque with 0.36 percent. Both UCAT and COFINSA efforts are intended to assist municipalities develop efficient cost recovery systems.

3.3 Technical Assistance and Training

3.3.1 Nature of the Assistance

The Urban Poor II Program has included a substantial technical assistance component, financed by AID's grant and ESF resources of \$1.6 million and \$533,000, respectively. Technical assistance has been directed to project implementation, to policy improvements, and to institutional changes.

The original project design provided for technical assistance relating to the shelter component of the Urban Poor II Program in the form of a long-term financial and management advisor, short-term consultants and program-related short-term training. The design envisaged the long-term advisor to provide technical assistance directly to participating institutions in the areas of financial management and organizational development in order to enhance

sectoral performance. Two other long-term advisors and several short-term consultancies and training were also planned for the urban development component.

Through January 1990, assistance valued at more than \$1 million has been provided in the form of long-term advisors, short-term studies, and conference and training participation:

Long-term advisors, located in RHUDO office:

Housing and Urban Development Planner
Urban Engineering and Project Manager
Municipal Management Specialist

Short-term studies, at RHUDO's request, by U.S. and local consulting firms:

Social Housing Fund
Affordability Analysis
Sectoral Assessment (City Selection)
Construction Industry Survey

Direct assistance to cities, at RHUDO's request, by U.S. and local consulting firms, and BANMA:

San Pedro Sula Urban Development
Secondary Cities' Assessment
La Ceiba Urban Development
Secondary Cities' planning, management, and finance

Conference participation/visits by Honduran personnel:

PRE/H Policy Conference (Washington)
UNIAPRAVI Conference
IULA Conference (Colombia)
IULA Conference (Ecuador)
Fundacion Carbajal

Training for Honduran personnel:

INCAE Course (Costa Rica)
Housing Course (Brazil)
INCAE Course (Miami)

In addition, the technical assistance grant has financed this evaluation and minor support services (printing).

Assistance has been provided through several mechanisms. Long-term resident advisors include five personal service contractors. Short-term studies have been undertaken by U.S. and local consulting firms. Conferences and seminars, provided by trade associations, training institutions, and AID itself, have been attended by Honduran public and private sector personnel. Direct

assistance to local governments has also come from the Unidad de Coordinación y Asistencia Técnica (UCAT) of the Banco Municipal Autónomo (BANMA), and from Consultores Financieros Internacionales (COFINSA).

The technical assistance grant, originally a three year program to be expended by the end of March 1990, has been extended a fourth year through March 1991.

3.3.2 Performance of the Assistance

The technical assistance has had a major positive effect on program implementation of the urban development component and minor impact on the housing finance component. The training component, on the other hand, has had no noticeable impact on either component.

The long-term resident advisors have assisted the participating institutions to understand and fulfill AID documentation requirements and to meet AID project criteria. Efforts in this area have been primarily directed towards developing eligibility criteria and implementation guidelines for the various participating institutions and monitoring their compliance with program regulations. Long-term advisors have also provided assistance in the development of the new municipal reform law, and they have been important advocates of its passage.

The advisors, however, have not transferred the kinds of skills and methodologies necessary for local governments to sustain the implementation process in the case of the urban development component, nor the rationale and approaches necessary for savings and loan associations to finance housing for low-income families on a sustainable basis in the case of the shelter component.

The short-term consultancies from U.S. and local firms have had important and timely impacts. One study provided the needs and capacity analysis necessary to select appropriate secondary cities for project participation. Another study provided an analysis of proposed legislation for the creation of a social housing fund at the national level to produce and finance housing costing less than L21,000 through a system of taxation. A third consultancy was undertaken to assess the role of the construction industry in the economy and to identify potential new technologies to lower the construction costs of housing for low-income families.

Several officials of the various local institutions participating in the Urban Poor II program have been provided with overseas training in the areas of housing policy and housing finance, but such participation has been most often used to showcase the program rather to teach new skills.

The short-term assistance that has been provided for urban development directly to participating cities has had mixed results, from the positive assistance in San Pedro Sula and others, to the problematic assistance of UCAT.

The assistance that has had the most visible impact is that directed to the urban development process in San Pedro Sula. The assistance provided strategic guidelines for the physical, policy, and institutional development required to ensure the systematic and timely supply of urban land to meet the city's future needs. At the same time that the assistance served physical planning needs, it has promoted important policy changes that are generally improving project implementation, and specifically supporting local government incentives for private sector investment in urban development. New programs are based on a clear understanding of existing and expected economic and social conditions in San Pedro Sula. In addition, the full participation of Honduran professionals in the studies has contributed to local professional capacity to undertake similar work elsewhere in the country.

The assistance to San Pedro Sula has had an exceptionally high impact for at least two reasons. First, the city of San Pedro Sula on its own was seeking new approaches to urban service delivery, looking to itself to provide management and planning guidance, and looking to the private sector to provide land, resources, and energy to the same ends; the local climate was right. Second, the work was carried out in a genuine collaborative way, with the local government a willing recipient and participant in the planning process.

The assistance provided by the UCAT unit to municipalities has been troubled since its inception by its institutional home in BANMA, as well as the substance of the assistance provided. While La Ceiba was the only municipality that expressed satisfaction with UCAT's assistance, both Tela and Siguatepeque were adamant in their displeasure.

As local governments in Honduras are being encouraged to provide more for themselves, and in fact are seeking a measure of autonomy, they increasingly regard central institutions as irrelevant to their needs, and worse in the case of BANMA, blatantly political and financially bankrupt. In addition, BANMA is seen as only barely adequate in carrying out its traditional functions of building municipal offices, markets, etc. It would take exceptional technicians providing high impact assistance to overcome those views of BANMA by local governments; in that context, UCAT has been unable to deliver effective assistance on a consistent basis to most, but not all local governments. The problem seems to be one of perception by UCAT about what it should be doing under its contract and by the recipient local government about what it needs. For instance, local governments as a rule do not welcome management assistance that seeks to usurp their hiring authority or the management of their facilities.

As AID's dissatisfaction with UCAT has evolved over the last two years, it has correctly concluded that BANMA is not a suitable institution to provide technical assistance, and in fact public entities generally are unlikely to be effective. Consequently, AID sought private Honduran consulting services, and in November 1989 entered into an agreement with Consultores Financieros Internacionales (COFINSA) to provide technical assistance to the participating local governments.

COFINSA has started its contract quickly, undertaking surveys and analyses of the five participating secondary cities, exchanging information with UCAT, becoming involved at the national level in the new municipal reform law. While it is too early to judge COFINSA's effectiveness, their reports so far suggest an emphasis on local economics rather than on municipal management issues that reflect policy changes, such as how can a local government generate new revenues.

4. CONCLUSIONS

From the analysis and findings presented in the previous section, a number of conclusions can be drawn.

4.1 General

- 1. The Urban Poor II Program is fundamentally sound, on its way to meeting many of its physical output targets, and supporting important new policy changes.** Over 12,000 low-income families have been provided with water and sewerage systems or mortgages for new housing; nearly 20,000 families will soon benefit from projects in process; an estimated 3,000 families will benefit from projects not yet started. The home improvement portion of the shelter component is virtually dormant. In terms of institutional outputs, major policy changes to promote the participation of the private sector in urban development have taken place in San Pedro Sula, and to a lesser degree in La Ceiba.
- 2. Macroeconomic realities constrain domestic resource mobilization.** Throughout the 1980s the combined effects of declining real income, rising unemployment, and steep price increases have posed severe constraints on Honduras' ability to provide minimum shelter and urban services for its vast low-income population. Income levels are so low that even if the country's local governments and housing finance institutions had the resources to deliver water and sewerage services and minimum standard shelter, a large proportion of the country's poor could not afford to pay those costs.
- 3. Macroeconomic conditions affect disbursements and consequently project execution.** Honduras' stock of external payments arrears have accumulated since 1988 due, in part, to heavy debt service obligations to multilateral agencies. The buildup of arrearages and stagnant foreign exchange earnings led to a decision by AID to not authorize Honduras to borrow an additional \$10 million in Housing Guaranty resources authorized for the 522-HG-008 program. In the absence of the \$10 million, ESF resources have been applied to the urban development component, while FOVI has discounted S+L mortgages from its own resources. While the evaluation team was in country during early 1990, negotiations were underway to clear these arrearages so that lending from bilateral and multilateral sources could resume. Until that happens, however, various planned and approved project components of the Urban Poor II program are being implemented with the possibility that they will not be reimbursed.
- 4. Public sector participation in the program has reached the limit set forth in the Implementation Agreement.** Both the Project Paper and the Implementation Agreement stipulated that public sector participation in the Urban Poor II program "will be limited to 20 percent of the US\$22.5 million allocated for [the shelter] component." By the end of 1989 FOVI had rediscounted 574 mortgages presented by INVA using funds made available under the program up until that point in time. These 574 public sector mortgages represent about 15 percent of the total value of mortgages discounted by FOVI with HG funds. During the latter part of 1989, FOVI rediscounted an

additional 413 INVA mortgages valued at L4.4 million which met AID eligibility criteria using its own resources. FOVI understands that it will be reimbursed with HG funds once Honduras is authorized to borrow the remaining US\$10 million in HG resources authorized for this program. At this point in time the 987 mortgages originated by the public sector and rediscounted by FOVI represent 22.6 percent of the total value of rediscounted mortgages presented by all eligible institutions under the Urban Poor II program. Expressed in dollar terms at the official rate of exchange, these 987 mortgages are valued at US\$4,431,350 or 19.7 percent of the total US\$22.5 million to be allocated for the shelter component.

4.2 Local Government

5. The participating cities are very different. They not only differ in size and urban functions, but they vary greatly in political leadership, in community attitudes, in technical capability, in human resources, in financial resources, and historical patterns of growth.

6. Most Honduran municipalities suffer from limited authority, inflated bureaucracies, lack of resources, ineffective management capabilities, and heavy dependance on centralized government. At the same time, Urban Poor II projects have been planned, implemented, and supervised within a framework requiring a degree of local autonomy and control. These inconsistencies have resulted in numerous problems and disruptions during program implementation.

7. Local government autonomy is vital for municipal progress. The evidence is quite clear that where local government has controlled the resources, that is, where it has raised and spent money, the likelihood of effective service delivery is high; this is the case with DIMA in San Pedro Sula.

8. The proposed municipal development law, if enacted, will be important to improved effectiveness of urban management by local governments. The Honduran Congress is reviewing a municipal reform law which would return a degree of autonomy to local municipalities together with the responsibility for managing local resources. Concern nevertheless remains among mayors of secondary cities about how to create effective mechanisms to implement the new law, how to increase the participation of the local constituency, and how to develop administrative mechanisms to improve management of municipal assets.

9. Urban Poor II projects incorporate limited cost recovery targets or formal mechanisms for the recovery of costs over future years. Targets must not only include the costs of providing the service, but the costs to maintain the service over its life. Various cost recovery strategies are being utilized, including promotional campaigns, voluntary/discount payment plans, and compulsory schemes based on the threat to disconnect services. Nevertheless, the concentration of decision-making for basic infrastructure service delivery in central government agencies and national parastatals decreases the willingness of citizens to pay for those projects.

10. There is no evidence that municipalities (with the exception of San Pedro Sula) are prepared for the maintenance of their water and sewerage systems. They are neither programming funds for the recurrent costs nor developing a scheduled maintenance system.

11. The source of financing of off-site infrastructure in Urban Poor II projects has varied from the municipality itself, other donors, and the Employment Generation Project. Despite the variety of resources for off-site infrastructure, the weak planning and out-of-phase provision of off-site infrastructure has created bottlenecks in project implementation.

12. Municipal Implementation Units continue to need technical assistance and resources. The Units need more resources to be able to function more effectively. The situation in Siguatepeque, for instance, where the Implementation Unit has no permanent office nor equipment, is unsatisfactory.

13. Continuity of technical staff in municipalities is important, but difficult to maintain. Although the implementation units originally were created to operate independently, the staff of several units expressed concern that they will be removed from their present positions due to a change in political parties.

4.3 Private Sector

14. The private sector will participate in urban service delivery. The San Pedro Sula model is significant. A private investor has decided to take risks as long as the public sector provides a suitable framework -- in this case a modification of land use standards (e.g., reduced minimum lot size, reduced street widths) and the provision of several in-kind contributions that make the project viable. While it is certainly evident that the special conditions of the city -- a progressive and modern government, dynamic public leadership, a relatively robust economy, and a community spirit -- distinguish it from other Honduran cities, the fact remains that it is setting a leadership role for other cities. Indeed, on a smaller scale, the municipality of La Ceiba is promoting a partnership with the private sector first in urban planning under the Urban Poor II Program, but potentially in the implementation of improvement projects.

15. The participation of private housing finance institutions has been limited. The Urban Poor II Program succeeded in enlisting S+L participation in the quantitative production and financing of shelter solutions affordable to lower income groups largely because these private institutions simply served as a conduit through which to channel external savings into housing investment. But the elements necessary for qualitative participation in the program are simply missing. The S+Ls have not showed interest; there has been no change in interest rate policies; low-income families are not their client base; macroeconomic policies do not allow them to capture domestic resources.

16. NGOs are the most viable intermediaries for reaching low-income households. Given the fact that the informal sector in Honduras has done a far better job of building houses for itself than the formal sector has of expanding to serve the mass housing market, it would appear that institution building would be more easily accomplished through assistance to institutions such as NGOs who view home financing for low-income households as their mission rather than through assistance to institutions such as the S+Ls which do not view below median income households as their natural market.

17. Although NGOs can now technically link formal sources of credit to their informal sector clientele, FOVI's insistence on the use of mortgages as loan guarantees is a major obstacle to NGO involvement in shelter production and finance. With potential low-income borrowers reluctant to use their homes as collateral for home improvement loans, NGOs cannot access FOVI's rediscounting facility. Unless FOVI modifies its policies with respect to home improvement loan guaranty requirements, the NGOs will not be able to facilitate change in the shelter status of low-income families. However, the introduction of alternative loan guarantees into the FOVI program must not compromise FOVI's viability as a source of liquidity for the housing finance system.

4.4 Technical Assistance

18. Long-term technical assistance is balanced between project implementation and specific technical and management assistance. The efforts of the long-term personnel have served to manage, facilitate, and expedite the various project elements, as well as to assist the implementing institutions in carrying out their functions. Much of the correspondence, site visits, implementation unit meetings, and other interchange between the implementing institutions and the resident technical assistance team has been related to the fulfillment of certain project conditions (e.g., beneficiary affordability requirements, eligibility studies, expenditure documentation) that lead to loan disbursements.

19. The short-term technical assistance provided by UCAT has generally not been effective. The serious problems that some municipalities are experiencing with the technical assistance provided by UCAT suggest that this type of assistance must be clearly targeted, planned, and monitored. In addition, although UCAT assistance is intended for specific sewerage projects and COFINSA assistance is targeted to improving revenues and municipal management, the appearance of a duplication of effort exists.

20. Technical assistance from one operating agency to another is also an effective mechanism. The difference between (a local government) DIMA's ability to plan, install, operate, and collect for potable water and sewerage systems in San Pedro Sula and (the national government) SANAA's inability to do the same in Tegucigalpa and secondary cities is no better reflected than in the efforts of secondary city governments to arrange for technical assistance from DIMA directly. The direct assistance in project management and planning that DIMA has provided to secondary cities has had a high impact.

21. The short-term technical assistance provided by COFINSA is underway. COFINSA has been providing technical assistance to municipalities for only a short period of time. It is getting underway in difficult circumstances, that is, mid-way through program implementation and as a de facto replacement for UCAT. Given the importance of the assistance, and the concern with its source (as a private consulting firm rather than the parastatal BANMA), AID should continue to seek opinions and reactions from the municipalities receiving assistance.

4.5 Program Impacts

22. The issue of beneficiary affordability and eligibility is complex, but it is useful for AID to use it as a leverage. Some of the beneficiaries of the Urban Poor II Program have incomes higher than the established median income level, although the average of median incomes in these places remains below the established level. AID has struggled with this issue in Honduras and elsewhere, but as an enforceable standard, the below median income criteria remains the single most important leverage AID has to oblige implementers to orient projects most effectively.

23. Water, sewerage, and street paving projects provide significant benefits to neighborhoods. In neighborhoods where Urban Poor II projects have been completed, observation and discussions with local residents suggest that the new services have a) contributed to increased earnings for small and informal businesses; b) increased land and home values; c) encouraged many residents to make improvements to their homes; d) provided construction jobs for residents (nearly 350,000 person days of employment have been generated both by completed projects and projects in process); e) improved environmental and sanitary conditions; and f) encouraged the formation of groups for neighborhood improvement projects.

24. The complexity of the Urban Poor II Program makes project sustainability very difficult to predict. The question of sustainability resides above all in the local capacity to deliver basic services to target groups in the short and long term without external assistance. Sustainability cannot be accomplished without increasing local community participation in municipal decision-making so that cost recovery programs will work. Effective sustainability requires private and informal groups to actively participate -- through formal and informal channels -- in the allocation and control of physical and natural resources and services, and in the determination of the services, facilities, and development programs that will benefit the residents.

25. Only 22 percent (350,000 of 1,612,000 person days) of the job creation target has been achieved in Urban Poor II. Despite the labor-intensive nature of the physical construction, the target will not be reached during the remaining life of the program.

4.6 Housing Finance

26. The amount of mortgage credit available in Honduras is only a fraction of what is required. The declining level of domestic financial savings available to the private housing finance system for mortgage credit coupled with the unwillingness on the part of cash rich institutions and individuals to provide their savings on a long-term basis has inhibited formal production and financing of housing for all but upper income groups.
27. Although established to serve as the country's primary source of housing finance, the savings and loan system's fundamental weakness is its inability to mobilize long-term savings to match with long-term mortgages. Institutions and individual investors willing to invest in lempira-denominated financial assets view long-term mortgages as risk-bearing loans and prefer investments with short maturities such as government bonds which have become an increasingly attractive form of financial savings.
28. Nearly all of the resources made available to the S+Ls financed new construction rather than home improvement loans. S+Ls are members of financial consortia consisting of developers and commercial banks. Their developer partners were eager to develop housing projects, and construction financing was readily available from their commercial bank partners. As a result, 98 percent of the resources have gone to new construction, leaving the home improvement portion of Urban Poor II virtually dormant.
29. FOVI operates as a successful, albeit constrained, second-tier lender of the housing finance system. FOVI took over the rediscounting function of the defunct FINAVI in early 1986, thereby restoring the ability of lenders in the shelter sector to refinance their loans on a long-term basis. This minimizes term risk and provides liquidity to the housing finance system. Since its inception, FOVI has succeeded in discounting a total of 5,620 mortgages valued at L82.1 million. The Urban Poor II Program has made a significant contribution to FOVI's ability to act as a second-tier lender. HG resources provided by the program to date have been used to discount 2,605 mortgages representing 46.4 percent of its total portfolio.
30. Although AID's efforts have succeeded in increasing the participation of lending institutions which cater to lower income borrowers, FOVI's role is constrained by relatively finite sources of funds. It has been dependent upon the Housing Guaranty Program for a large proportion of its resources. In order to expand its function as a successful second-tier lender, and in the process reach the intended target group, FOVI urgently needs to develop viable mechanisms to mobilize additional resources for mortgage lending on market terms.
31. Although the Urban Poor II Program had originally envisaged that participating financial intermediaries would finance a portion of the mortgages they originate with internal funds, as is done in other FOVI housing programs, FOVI has had to accept 100 percent discounting in order to move the program. Of course, this does not contribute appreciably to improved sectoral performance with a traditional private sector (i.e., risk taking) orientation.

The alternative of increasing margins by removing the lending rate limit in order to compensate for an element of risk could be contrary to the program's goal of increased access to affordable housing by low-income families. Financial and policy incentives, which may occur through structural reform, are more appropriate means to enhance private sector participation.

32. Land tenure is inexorably linked to mortgage and other credit programs to improve shelter conditions. When a household gains the security of land tenure, it is willing to use its limited resources to improve its home and neighborhood. Land tenure has been provided to those families who have purchased newly constructed units financed by the S+L system as well as those families whose neighborhoods have been upgraded. Nevertheless, large numbers of individual plots of land in and around Honduras' urban areas cannot be granted a clear title because of their illegal status on private or municipal land. Without a clear title these households are not eligible for mortgage financing and are thus precluded from participation in the FOVI program; without clear title they are unable to secure home improvement loans. The need to legalize land tenure is therefore a necessary precondition for improving the shelter conditions of Honduras' urban poor.

5. RECOMMENDATIONS

The conclusions presented in the previous section suggest that Urban Poor II can be completed with some success, but not without the fulfillment of several assumptions:

- . that \$10 million HG authorization is released;
- . that the GOH continue pursuing policies and operations that promote decentralization;
- . that family incomes are maintained at acceptable levels;
- . that NGO's increase in strength and serve housing finance functions; and
- . that the level of community participation continues to increase.

5.1 Urban Poor II Recommendations

The conclusions presented in Section 4 have resulted in the recommendations proposed below. The order is intended to convey the importance of the impacts to be derived. Institutional responsibilities and a framework for timing are suggested. Many of these recommendations should not only contribute to effective implementation of the remaining parts of the Urban Poor II Program, but also should be considered by AID as it designs its new municipal development project.

1. Technical assistance and training to municipal governments should be strengthened. (AID, COFINSA, UCAT; short-term)

In order to assist municipalities understand and carry out their role in a decentralized delivery system, further technical assistance and specific training is needed. Technical assistance is necessary to expand local government capabilities and promote more effective participation of other resources.

Assistance should be provided to local government Implementation Units. Effective technical assistance and training should be used to improve a) cadastral management (a weak but vital source of information in every municipality); b) traditional master planning, land use controls, and the management of land (particularly to anticipate the demand for basic public services) and environmental resources; c) human resources (including mechanisms which can lead to a reasonable level of continuity of the staff involved in the projects during the life of the particular project); and d) administrative procedures (with computer systems that are already available in some municipalities) for revenue generation through taxes and user fees, financial management, accounting, and budgeting.

The serious problems that AID and some municipalities are experiencing with UCAT have resulted in a de facto replacement for UCAT. COFINSA is presently taking the lead in providing technical assistance to the municipalities. AID should continue to seek opinions and reactions about COFINSA from the municipalities receiving assistance.

Effective local government agencies, like DIMA and UMVIDE in San Pedro Sula, should be enlisted to provide assistance to other municipalities. Many cities have requested San Pedro Sula's help in creating autonomous water and sewerage companies.

Renewed attention should be paid to the weaknesses in Tegucigalpa's capacity to deliver urban services. The service problems remain very serious, and the new local government provides an opportunity for a new effort by AID to work with the Implementation Unit.

On the national level, land tenure issues should be a focus of assistance that AID provides. Improved land tenure serves to integrate low-income families into the formal land market system; it is fundamental to the progressive improvement to shelter conditions of low-income families.

2. The successful strategies by which the commercial private sector has participated in the program should be understood and promoted. (AID, La Metropolitana, San Pedro Sula; medium term)

Traditionally the private sector has been reluctant to participate in urban development projects for low-income families due to the risks involved, low profit margins, and cost recovery problems. Various strategies and policy changes that promote increased participation of the commercial private sector in urban development projects exist in San Pedro Sula and La Ceiba. The stronger municipal governments which are able to implement innovative policy changes and administrative procedures have been the most successful in forging a public-private sector partnership. Several elements of these strategies -- modified land use requirements, governmental role as financial intermediary, and physical transfer assistance -- have induced the commercial private sector to become major participants in the projects.

The success of this model can have an impact on the delivery of improved housing and services to low-income families in Honduras and elsewhere. AID should continue to promote these strategies of public and private sector collaboration in strong and receptive municipalities for the remainder of the Urban Poor II.

3. The involvement of community based organizations, cooperatives, and the informal sector in urban development programs should be encouraged. (AID, NGOs; medium term)

In Siguatepeque residents have organized to improve the implementation of current projects and promote the development of new projects. Such involvement can generate community support for technical and financial assistance, while at the same time promote project repayment by beneficiaries.

AID's original intention to develop and support a process whereby community based organizations, cooperatives, and the informal sector actively participate in urban service delivery has been thwarted by the unavailability of the \$10 million undisbursed by HG resources. The proposed amendment to the 522-0324 program is intended to respond to the informal sector's needs to create a sustainable market to provide land for their shelter needs; this program should continue to receive high priority, and indeed utilize the technical resources of the recently hired two advisors whose work will focus on the informal sector as a major player in urban development.

4. Alternative loan guarantees for NGO lenders should be developed. (AID, FOVI, NGOs; short-term)

AID's efforts at encouraging greater linkage between the formal and informal financial sectors through expanded NGO participation in the FOVI program will be unlikely to improve the shelter conditions of the poor unless FOVI policy is modified with respect to home improvement loan guaranty requirements. The reluctance on the part of lower income groups to mortgage their homes in return for a home improvement loan is understandable. Of equal concern, however, is the necessity to maintain effective cost recovery mechanisms to prevent a repeat of the FINAVI decapitalization.

The CABEI-FOVI program includes a component on the informal sector, focusing on identifying constraints to shelter provision and proposing means of correction, such as the financing of NGO participation in housing delivery. AID, in the context of the CABEI-FOVI agreement, should thoroughly investigate functional alternative loan guaranty options which would enable NGOs to facilitate change in the shelter status of low-income families while at the same time safeguarding FOVI's viability as a second-tier lender which this program has succeeded in establishing.

5. AID should consider reallocating resources intended for the home improvement component to the financing of urbanized lots. (AID; medium term)

The home improvement component has not been implemented in any meaningful way. The S+Ls are simply not interested in this market; they perceive management and risk problems associated with small loans to low-income families.

GOH resources could be applied effectively, as they are now, to the municipalities ready and able to develop urbanized lots, rather than the seriously stalled home improvement loan program.

[As a result of the April 1990 devaluation, the delayed \$10 million HG disbursement -- if it indeed goes forward -- will generate twice the lempiras originally planned, thus providing the resources for AID to renew its efforts on the home improvement program.]

6. Off-site infrastructure is integral to the execution of improvement projects and should be planned and programmed accordingly. (AID, Municipalities; medium term)

Various Urban Poor II projects (in Tela and Choluteca, for example) have experienced lengthy delays as a result of the inability to initiate the off-site infrastructure needed for the operation of neighborhood infrastructure. AID has reviewed this issue carefully, including securing general counsel opinions that off-site infrastructure can be financed in some reasonable proportion to the target population or neighborhoods served.

AID should continue to press the municipalities to plan and program necessary off-site infrastructure in urban improvement projects.

7. Recurrent maintenance requirements must be accounted for in project cost recovery. (AID, Municipalities; medium term)

At present, Urban Poor II project strategies do not adequately consider infrastructure maintenance and consequent implications for cost recovery. Residents may not be willing to continue paying for the project if the system experiences problems in the future.

AID should promote approaches, such as those employed by DIMA in San Pedro Sula, which allocate a portion of costs recovered for future maintenance.

8. The most effective of the various cost recovery strategies used by municipalities should be understood and promoted. (AID, Municipalities; medium term)

Urban Poor II projects incorporate limited cost recovery targets or formal mechanisms for the recovery of costs over future years. Various strategies are being utilized, including promotional campaigns, voluntary/discount payment plans, and compulsory schemes based on the threat to disconnect services. A review of project cost recovery to date suggests that higher income levels and promotional activities increase cost recovery, though the information is too limited to offer any firm conclusions. Nevertheless, cost recovery should be considered a major determinant of the long range success of a particular project and a larger degree of effort should be expended to analyze results and develop strategies to ensure the long-term repayment of project costs by beneficiaries.

AID should sponsor a workshop in which the various experiences of cost recovery in the different municipalities would be presented and discussed. The municipalities would benefit from an understanding of the various methodologies. The workshop could focus on cost-effective and justifiable methods for maximizing cost recovery with attention to the several variables of income levels, service delivery, and subsidies received.

Cost recovery plans must account for off-site infrastructure expenditures, possibly through tariffs and taxation.

9. The identification of project beneficiaries and their relation to the target group requires continued monitoring. (AID; medium term)

In several project neighborhoods, some of the beneficiaries of the Urban Poor II Program have incomes higher than the established median income level although the average of median incomes in these places remains below the established level. Some of the newly developed neighborhoods have a high proportion of vacant plots; income distribution data is easily distorted when these plots are counted in neighborhood income statistics. In addition, it is to these very vacant plots that higher income families are moving, displacing the targeted lower income families even before they can benefit.

AID should continue to ensure that the eligibility studies undertaken for each project present evidence that the target beneficiaries will be served.

10. Technical coordination among implementing institutions should be promoted. (AID, EGP, Municipalities; short-term)

Numerous technical coordination problems and difficulties were noted during the evaluation (Tegucigalpa, La Ceiba, Choluteca, Siguatepeque, Tela). For example, since the funding for many off-site projects is presently provided by the EGP, coordination weaknesses have made the provision of on-site and off-site components seriously out of phase. In other cases, the need for foreign exchange to purchase certain project materials and equipment was not understood and planned in a timely manner. In other instances, consulting engineering designs have not been developed or coordinated with a full understanding of related off-site systems and requirements resulting in invalid estimates.

The implementation of the Urban Poor II projects is complex and technical, requiring a high degree of coordination among the various agencies, organizations, and consultants involved. AID should develop mechanisms, such as simple working groups or regular meetings, to assure that all the involved parties to a given project understand and plan on their responsibilities, including the most obvious items such as that each city has adequate offices and equipment.

5.2 Sectoral Lessons Learned

Lessons learned from this program that may be applied to the housing and urban development sector are presented below.

11. AID should continue to support the passage of the municipal development law and provide assistance to the strongest and most receptive cities.

While AID should not rely on the law's passage to resolve the problems of local autonomy and capacity, the law will provide the framework for the assumption of responsibilities by local governments. As for the strong cities, the urban development planning assistance provided to San Pedro Sula produced analyses -- of supply and demand, of the low-income population, etc. -- that led to changes of municipal regulations.

In order to increase the likelihood of replicability of the urban development component of this program, AID should support the passage of the municipal development law and put its technical resources in the cities with greatest potential to take advantage.

12. When the GOH defines the role of parastatals in the context of decentralization, technical assistance might be provided to a range of parastatals such as SANAA, HONDUTEL and ENEE that deliver public services and channel resources in urban areas.

Due to its mandate, AID's capital assistance supports basic services to below median income families. At the same time, the government and parastatals responsible for providing basic infrastructure to a wide range of income groups are not presently fulfilling such needs. In fact, in Comayagua and La Ceiba, some higher income families are moving into communities where urban infrastructure projects have been built for the urban poor.

If technical assistance is provided to a wider range of organizations, it could be expected that the level of efficiency of these organizations would increase and consequently their capacity to deliver services to all income groups.

13. If and when structural adjustment programs take effect, opportunities to mobilize additional domestic resources for mortgage lending on market terms should be explored.

The underlying structural constraints to domestic savings mobilization in the Honduran economy are extremely difficult to alleviate. There are alternatives to the traditional fixed-rate mortgage which dominated the U.S. residential housing market since the 1930s. Created in response to the volatile interest and inflation rates of the 1970-81 period, these alternatives include the adjustable-rate mortgage, the graduated-payment mortgage, and the price level-adjusted mortgage. While not guaranteed to counter the risk aversion inherent in mortgage lending in Honduras, these and other possible alternatives could provide additional flexibility currently absent in the housing finance system at this time.

14. Dramatic differences exist among the seven municipalities participating in the Urban Poor II Program.

It is difficult to compare these municipalities in terms of the effectiveness of each dollar expended. No methodology exists for identifying the variables and constants that should be taken into account nor the measures that can be used to evaluate their cost effectiveness.

In future projects, AID might consider undertaking an impact evaluation; this would require the early establishment of baseline data to be compared with the project when completed. A methodology would employ various measures of success (number of beneficiaries, municipal capacity; cost recovery rates, urban development rates, construction costs, etc.) in order to better

understand the costs and benefits realized. Such an approach would also analyze income distribution, so necessary to identify and plan projects for the appropriate target group.

5.3 Program Goals and Performance

The matrix that follows summarizes a) key program objectives as reflected in the Project Paper and Implementation Agreement; b) key program achievements as reflected in the findings and conclusions presented in Section 5.1; and c) selected recommendations that AID should consider during the remaining life of the program.

PROGRAM GOALS AND PERFORMANCE

KEY PROGRAM OBJECTIVES		KEY PROGRAM ACHIEVEMENTS		RECOMMENDATIONS
Expenditures		Expenditures		The stronger municipal governments which are able to implement innovative policy changes and administrative procedures have been the most successful in forging a public-private sector partnership. AID should continue to provide assistance to the local governments where there is a demonstrated willingness to adopt new policies.
Housing/FOVI	\$22.5 million	Housing/FOVI	\$22.5 million	
Tegucigalpa urban upgradings	5.0 million	Tegucigalpa urban upgradings	3.8 million	
San Pedro Sula urban upgradings	5.0 million	San Pedro Sula urban upgradings	6.2 million	
Urbanized lots	0	San Pedro Sula urbanized lots	5.0 million	
Secondary Cities urban upgradings	10.0 million	Secondary cities urban upgradings	5.0 million	
	\$42.0 million		\$42.5 million	
. Reallocation, if required, to be based on performance and effective demand to avoid potential bottlenecks.		. Reallocations were made from cities with implementation problems to more capable cities as well as those that committed to important policy changes.		
Estimated Number of Direct Beneficiaries		Estimated Number of Direct Beneficiaries		By the time the program is completed, number of direct beneficiaries will have exceeded the original target, this despite the fact that the home improvement component has made only minimal progress. The reallocation of resources to the upgraded infrastructure component is most appropriate and should be continued.
Upgraded Infrastructure	21,887	Upgraded Infrastructure	As of 2-22-90 9,526	
Home Improvements	6,750	Home Improvements	169	
New Shelter	2,917	New Shelter	2,605	
	31,554		12,300	
		. Projects in process (more than 90% completed)	19,800	
		. Eligible projects not started	3,000	
			35,150	
		. 45 percent of the targeted number of direct beneficiaries have been reached.		

KEY PROGRAM OBJECTIVES	KEY PROGRAM ACHIEVEMENTS	RECOMMENDATIONS
Job Creation ----- 1,612,000 person days	Job Creation ----- 350,000 person days	Only 22% of the target has been achieved as of September 1989, and it is clear that at the current rate of construction, the target will not be reached. The Project Paper does not show the analysis on which the target was based; as a consequence it is difficult to comment on the underachievement of this target other than to suggest that the labor intensive nature of the construction should continue.
Monthly Median Income ----- According to Implementation Agreement: December '86 Tegucigalpa L 938 San Pedro Sula 698 Secondary Cities 528 Other Urban Areas 329	Monthly Median Income ----- Revised (AID-GOH) March 1987 Tegucigalpa L 993 San Pedro Sula 734 Secondary Cities 496 Other Urban Areas 310 Original incomes established were not based on the best information. Project implementation letter established new monthly income limits Projects in other urban areas were not implemented for management reasons as well as the importance of working in the strongest municipalities.	The change in median income data brings up the issue of the relation of the project beneficiaries to the program target groups. Some of the beneficiaries of the Urban Poor II Program have incomes higher than the established median income level although the average of median incomes in these places remains below the established level. AID should ensure that the eligibility studies undertaken for each project present evidence that the target beneficiaries will be served.

KEY PROGRAM OBJECTIVES	KEY PROGRAM ACHIEVEMENTS		RECOMMENDATIONS
Cost Recovery	Cost Recovery		The concentration of decision-making for basic infrastructure service delivery in central government agencies and national parastatals decreases the willingness of citizens to pay for those projects. Urban Poor II projects should incorporate limited cost recovery targets or formal mechanisms for the recovery of costs. In the short term, AID should sponsor a workshop in which the various experiences of cost recovery in the different municipalities would be presented and discussed. In the long term, recurrent maintenance requirements must be accounted for in project cost recovery. AID should promote approaches, such as those employed by DIMA in San Pedro Sula, which allocate a portion of costs recovered for future maintenance.
Provision of urban services on a cost recovery basis			
		% of Costs Recovered	
		Monthly rate of costs recovered	
	Tegucigalpa	7.8%	
	San Pedro Sula	1.4%	
	La Ceiba	4.4%	
	Tela	-	
	Comayagua	2.3%	
	Siguatopeque	4.3%	
	Choluteca	-	
	2.5 percent of the project costs have already been recovered from beneficiaries.		
Private and Informal Sector Involvement	Housing Finance		Housing Finance
Improve institutional capacity of the private sector to enhance housing and infrastructure services	The Urban Poor II Program succeeded in enlisting S+L participation in the production and financing of shelter solutions affordable to lower income groups largely because these private institutions simply served as a conduit through which to channel external savings into housing investment.		NGOs are the most viable intermediaries for reaching low-income households. NGOs view home financing for low-income households as their mission rather than institutions such as the S+Ls which do not view below median income households as their natural market.
	Urban Development		Urban Development
	The private sector will participate in urban service (Calpules) and shelter delivery (La Metropolitana)		The successful strategies by which the commercial private sector has participated in the program should be promoted, such as in the case of San Pedro Sula and La Ceiba.
Improve Security of Land Tenure	Land tenure has been provided to those families who have purchased newly constructed units financed by the S+L system, as well as those families whose neighborhoods have been upgraded. Land tenure issues beyond this project are starting to be addressed, as a result of the technical assistance provided to San Pedro Sula and La Ceiba.		Land tenure issues should be a major focus of studies and other assistance that AID promotes. Technical assistance should also be provided to strengthen cadastral management in local governments. Improved land tenure will serve to integrate low income families into the formal land market system.

KEY PROGRAM OBJECTIVES	KEY PROGRAM ACHIEVEMENTS	RECOMMENDATIONS
<p>Technical Assistance</p> <p>. Improvement in management capacity . Enhancement of the availability of urban services (for low-income families) To develop vehicles for carrying out urban investments; to support changes necessary to increase domestic savings for shelter finance; to enhance cost recovery; to expand coverage of private sector financial institutions; to revise municipal law.</p> <p>Long Term: Program Coordinator Financial/Management Advisor Technical Advisors</p> <p>Short Term: Shelter Finance Policies and Management Municipal Administration Cadastre Promotion Betterment Tax Operation and Maintenance of Services Training</p>	<p>Technical Assistance</p> <p>Technical assistance has been provided through long term resident advisors, short term studies by U.S. and local consulting firms, and from two local firms retained to work directly with local governments. The technical assistance has had a major positive effect on program implementation of the urban development component and minor impact on the housing finance component. Training has had no noticeable impact on either component. Long term technical assistance has been balanced between project implementation and specific technical and management assistance.</p> <p>Long Term: Program Coordinator Municipal Management Specialist Urban engineering Informal Sector Advisor Informal Sector Advisor</p> <p>Short Term: Social Housing Fund Affordability Analysis City Selection Construction Industry Survey San Pedro Sula Urban Development Secondary Cities Assessment La Ceiba Urban Development Secondary Cities Planning, Management and Finance Conference Participation/Visits Training (INCAE, Housing Course)</p>	<p>Technical assistance continues to be the appropriate mechanism by which AID can improve carry out effective policy dialogue at the national and local level. It should be strengthened. Attention should be paid to cadastral management, traditional master planning, and land use controls; human resources; and administrative procedures. Effective local government agencies should be enlisted to provide assistance to other municipalities.</p>

KEY PROGRAM OBJECTIVES	KEY PROGRAM ACHIEVEMENTS	RECOMMENDATIONS
<p>Housing Finance</p> <p>GOH to study the increased mobilization of domestic capital to provide long term loans for shelter and to identify and develop appropriate policies to mobilize that capital without recourse to subsidies.</p> <p>GOH to adapt and implement policy, regulatory and operational changes required for greater private sector participation in the low income shelter market.</p>	<p>AID has been unable to influence the housing finance sector in resource mobilization or in regulatory changes to encourage private sector participation in the low income shelter market.</p>	<p>Alternative loan guarantees for NGO lenders should be developed. The CABEI/FOVI loan program includes a component on the informal sector, focusing on financing of NGO access to a FOVI line of credit. With new long term informal sector advisors, AID should pursue functional alternative loan guaranty options which would enable NGOs to facilitate change in the shelter status of low income families.</p>
<p>Government of Honduras Commitment</p> <p>. To set the general policy framework and goals to improve sectoral performance</p> <p>. To adopt and implement policies and legislation to provide for a strengthening of the local government role in municipal development</p>	<p>There is no defined and adopted framework for an urban development nor a housing finance system in the country. No single institution nor government agency has assumed the responsibility for developing national urban development and housing policies, nor other elements necessary for directing limited resources to urban needs of an increasing lower income clientele.</p> <p>AID has made significant contributions to the development of the municipal development law, now being discussed in the Congress. If enacted, it will be important to improved effectiveness of urban management by local governments.</p>	<p>. While AID should not rely on the passage of the municipal development law to resolve the problems of local autonomy, it should continue to support it as an important framework for the assumption of responsibilities by local governments</p>

KEY PROGRAM OBJECTIVES	KEY PROGRAM ACHIEVEMENTS		RECOMMENDATIONS
<p>Off-Site Infrastructure</p> <p>. Overall design should assure provision of off-site infrastructure.</p> <p>. Resources for the Employment Generation Project were intended to finance a substantial portion of off-site infrastructure.</p>	<p>City</p> <p>Tegucigalpa</p> <p>El Rincon</p> <p>Trinidad</p> <p>San Pedro Sula</p> <p>La Ceiba</p> <p>Tela</p> <p>Comayagua</p> <p>Siguatepeque</p> <p>El Carmen</p> <p>Choluteca</p>	<p>Financed By % Off-Site</p> <p>Municipality 50%</p> <p>Municipality 37%</p> <p>Other donors none</p> <p>EGP 17%</p> <p>EGP 62%</p> <p>EGP 53%</p> <p>EGP 17%</p> <p>AID 10%</p> <p>E.G.P. 50%</p>	<p>AID's ability to allocate resources from the Employment Generation Project for urban infrastructure projects has increased the leverage of Urban Poor II by expanding available funding.</p> <p>AID should continue to press the municipalities to plan and program necessary off-site infrastructure in urban improvement projects.</p> <p>Of equal importance, cost recovery plans must account for off-site infrastructure expenditures and maintenance, possibly through tariffs and taxation.</p>
<p>Macroeconomic Conditions</p> <p>A vital assumption for program implementation is that the GOH borrows the full HG authorization. At the time of project design, this was a realistic assumption.</p>	<p>Economic conditions in Honduras have deteriorated. External payment arrears have accumulated due in part to heavy debt service obligations to multilateral agencies. Arrearages and stagnant foreign exchange earnings led to AID's decision to not authorize Honduras to borrow the last \$10 million in authorized Housing Guaranty resources. Until arrearages are cleared, the expenditures for some projects currently being implemented may not be reimbursed. In addition, the effects of declining real income, rising unemployment, and steep price increases combine to pose severe constraints in the provision of shelter and urban services on the supply side and ability to pay by low income families on the demand side. In the absence of the \$10 million, ESF resources have been applied to the urban development component, while FOVI has discount S+L mortgages from its own resources.</p>		<p>Structural adjustment alone is not likely to persuade AID that the \$10 million HG should be authorized. The GOH must also reach agreement with its creditors, re-scheduling its debt in a way that provides AID sufficient confidence to guaranty the \$10 million.</p>

KEY PROGRAM OBJECTIVES	KEY PROGRAM ACHIEVEMENTS	RECOMMENDATIONS
<p>Other Project Objectives</p> <p>The Project Paper provided for other project elements that were in fact, not implemented:</p> <ul style="list-style-type: none"> - The provision of community facilities (e.g. schools, clinics) - The inclusion of housing in rural areas - The provision to local governments of <ul style="list-style-type: none"> . microcomputers . software . vehicles 	<p>Other Achievements</p> <p>Observations and discussions with local residents suggest that the provision of new services under Urban Poor II have:</p> <ul style="list-style-type: none"> - Contributed to increased earnings for small and informal businesses - Increased land and home values - Encouraged many residents to make improvements to their homes - Improved environmental and sanitary conditions - Encouraged the formation of groups for neighborhood improvements 	<p>Lessons Learned</p> <p>In future projects, AID might consider undertaking an impact evaluation; this would require the early establishment of baseline data to be compared with the project when completed. A methodology would employ various measures of success in order to better understand the costs and benefits realized.</p>

Appendix A. Scope of Work

Progress Evaluation of the Housing Guaranty Program 522-HG-008, Shelter for Urban Poor II.

ARTICLE II - OBJECTIVE

The purpose of this technical assistance is to provide a progress evaluation of the implementation to date of the Housing Guaranty Program 522-HG-008 and the complementary technical assistance grant 522-0324 in comparison to the goals and objectives of the Project Paper Amendment, the Grant Agreement, and the Implementation Agreement and to recommend, if necessary, appropriate adjustments. The final report should identify specific problem areas and offer suggestions for improvement.

ARTICLE III - STATEMENT OF WORK

The Contractor will provide a three member evaluation team to conduct a progress evaluation of the Housing Finance, Urban Development and Technical Assistance Components of the Shelter for Urban Poor II Program to determine the effectiveness of the program's implementation.

The evaluation team will determine whether the goals and purposes stated in the Project Paper Amendment, the Implementation Agreement for 522-HG-008 and the Grant Agreement for 522-0324 are appropriate and being effectively implemented and attained within the current Honduran socio-economic context.

The evaluation team will specifically review the following:

A. Overall Program Goals

1. The program's success in meeting the long term goal of improving the shelter conditions (access to housing and urban services) of low-income families
 - a. Housing Finance Component: Review policy regulations and operational changes promoted by the Government of Honduras under this program, that have led to an improvement of shelter conditions for low-income families in Honduras. What policy regulations and operational changes have been promoted? What realistic targets should be established for measuring the impact of the Honduras housing finance system. What are the major constraints to the implementation of the Housing Finance Component? What policy changes and methodologies could realistically be promoted to improve the current system?
 - b. Urban Development Component: Review municipal governments capacity to carry out urban upgrading activities. Analyze the following: to what extent have municipal governments executed the programmed urban upgrading activities? What physical and institutional advancements have been made to date? What are the major constraints to implementation of urban projects? What areas of additional assistance do municipal governments need to carry out urban upgrading activities?

ter and urban service delivery systems to significantly increase the number of low-income families with access to such services. Analyze the following: What policy changes have been developed? In what areas? Of those developed which have been implemented? Can the impact (positive and/or negative effects) of those policy changes implemented be measured at this point in time? If so, what is the impact on access to shelter and urban service delivery by low-income families? If not collected by the program, what kind of information is necessary to assess impact of policy changes by the end of the Program.

3. Review private sector capability including that of the informal sector, in providing housing and infrastructure services for low-income families. Analyze this capability in terms of technical capacity, private sector involvement in the production, marketing and financing of shelter solutions affordable to low-income families. Has a functional system been reestablished to allow private sector participation in low-cost housing finance? If so, how effective has it been? If not, what are the major constraints?

To what extent has coverage by private sector financial institutions been increased to include low-income families and to what extent can they participate on a cost recovery basis? Have financial policies been developed and implemented encouraging private sector participation?

4. Review Municipal governments capacity by analyzing organizational structures, relationships with central government, major implementation constraints, and effectiveness of technical assistance provided to date.
5. Beneficiaries. Has the program reached the proportional number of loans, by type of solutions, so that 30,000 low-income families will receive financing for upgrading infrastructure, home improvement and/or new shelter by the end of the project? Determine the extent to which housing and infrastructure solutions are reaching low-income beneficiaries. Develop a matrix showing number of beneficiaries at each level of the income distribution. If there are no data available to develop such a matrix, provide recommendations for collecting such data for a final impact evaluation.

B. Housing Finance Component (522-HG-008)

1. The private sector involvement in the production, marketing and financing of shelter solutions affordable to low-income families.
2. The reestablishment of a functional system for private sector participation in low-cost housing finance.
3. The development and implementation of financial policies which encourage private sector participation.
4. The expansion of coverage by private sector financial institutions to include low-income families.

C. Urban Development Component (522-HG-008)

1. Sustainability of mechanisms developed to implement projects measured in terms of: (a) municipal management staff involvement and experience required (i.e. mayor, assistant mayor, and department chief's involvement); (b) qualifications and time of technical and administrative support staff required (secretaries, engineers, personnel in cadastre, treasury, and other support offices); (c) minimum office and field equipment required; (d) level of municipality's interaction with central and departmental government institutions required; (e) nature and level of municipality's interaction with community required for acceptance of project; (f) type and level of AID's effort in project implementation required; and, (g) potential use of mechanisms for future basic infrastructure projects.
2. Effectiveness of cost recovery methods being used or chosen for use in projects by municipalities, measured in terms of: (a) likelihood of HG loan repayment to central government; (b) likelihood of loan repayment to municipality by project beneficiaries; (c) ability of municipal structure and personnel to effectively administer cost recovery methods without outside assistance; (d) level of technical assistance and training effort required to date to design and implement (mainly set up) the chosen cost recovery method; (e) advantages and limitations of cost recovery methods used or promoted by technical assistance providers.

D. Technical Assistance (522-0324)

Review that the technical assistance component has been able to:

1. Expedite project implementation of the Housing Guaranty Program;
2. Set the general policy framework and goals to be achieved for improved sectoral performance;
3. Assist the Government of Honduras to develop successful financial policies and effective institutions to meet the shelter and urban development needs of low-income families;
4. Advise the Government of Honduras and the implementing institutions in project implementation and cost recovery issues.
5. Review the participating municipalities' ability to absorb and use technical assistance and training provided under the program, measured in terms of:
 - a. Frequency of instruction.
 - b. Municipal staff time devoted to TA providers.
 - c. Level of understanding of basic principles of project implementation promoted by TA providers.

training being provided to secondary cities. To date, technical assistance has been provided by a technical assistance and training unit housed within a central public agency (BANMA). Suitability and performance shall be measured in terms of:

- a. Appropriateness of objectives, nature and targets unit staff has set for delivering technical assistance to participating municipalities.
- b. Ability of unit to achieve goals and objectives it set within timeframe of its latest work plan. The contractor shall identify major constraints and obstacles which prevented strict adherence to the work plan.
- c. Level and nature of involvement required by BANMA's central management structure throughout the program.
- d. Level and nature of interaction between municipality and the central unit required to maintain minimum pace of implementation.

ARTICLE IV - REPORTS

The Contractor shall submit to USAID/Honduras (during last week of Team Leaders stay) a preliminary draft report of the evaluation, for comments prior to departure from Honduras. Upon receipt of USAID/Honduras comments, if any, the Contractor will deliver 30 calendar days thereafter, thirteen (13) copies in English of the final evaluation report prior to the completion of this order. The evaluation report format will contain the following sections:

- Executive Summary (no more than three pages, single spaced) containing the objectives and purpose of the evaluation, methodology applied, findings, conclusions, recommendations, lessons learned, and comments on development impact.
- Table of Contents
- Body of Report. The report (not to exceed 40 pages, single spaced) is to include a description of the country context (economic, political, social) in which 522-HG-008/0324 were developed and now being carried out; evaluation team composition, field of expertise and role it played in the evaluation (one page maximum); evaluation methodology information (evidence and analysis) on which the conclusions and recommendations will be based (separated by sections as specified in the Statement of Work); lessons learned and comments on development impact. Additional detail can be included in appendices.
- Conclusions
- Recommendations by order of priority and divided by each institution responsible for implementing them.

- Appendices. This should include at a minimum:

- a. The Evaluation Scope of Work.
- b. The pertinent logical framework with a brief summary of the current status/attainment of outputs.
- c. A description of the methodology used in the evaluation.
- d. A bibliography of documents consulted.
- e. A list of officials interviewed.

At the time of submittal of the draft evaluation report, the Team Leader will conduct a debriefing for the Mission. During the first week in Honduras, the Contractor will develop a work plan, an outline of the evaluation report, and obtain Mission approval for carrying out the evaluation in accordance with the work plan. The Evaluation Team Leader will complete the abstract and narrative sections of the A.I.D. Evaluation Summary form (to be provided by USAID/Honduras at time of arrival) and submit it with the final report.

Appendix B. Logical Framework

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 87 to FY 89
Total U.S. Funding _____
Date Prepared: _____

Project Title & Number: HONDURAS SHELTER SECTOR PROGRAM (522-HG-008)

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>Improve the shelter conditions of low-income families.</p>	<p>Measures of Goal Achievement:</p> <ol style="list-style-type: none"> By the end of 1990, an increase of 64,482 units meeting structural and infrastructure standards: <ol style="list-style-type: none"> 46,262, metro 18,220, urban (pop. > 2,000) 39,252, rural By the end of 1990, the increase in the share of households living in fully acceptable units is: <ol style="list-style-type: none"> Total Households <ol style="list-style-type: none"> 57% in metro areas 82% in other urban areas 25% in rural areas Low Income Households <ol style="list-style-type: none"> 30% in metro areas 32% in other urban areas 11% in rural areas Over \$95 million in additional domestic savings are generated between 1987 and 1990, of which more than \$80 million is expected to be allocated towards credits for the housing sector. By the end of 1990, annual increments of \$28 million in new lending for the housing sector. Total investment in the sector increases from 77% of needs in 1986 to about 87% in 1990. 	<ol style="list-style-type: none"> Impact evaluation CEN census of population and housing, if available Central Banks Statistical Reports 	<p>Assumptions for achieving goal targets:</p> <ol style="list-style-type: none"> Present demographic growth patterns remain stable for metro, urban and rural areas i.e., that there is no significant increase in the rate of household formation. \$34.15 million in A.I.D. and other donor rural projects are funded and implemented on a timely basis; and full implementation of the \$5.0 million bond-issue program by the Housing Fund and remaining \$1.4 million in previously committed CHF funds in urban areas. Households respond to the program and financing opportunities by mobilizing additional savings for investment to improve their shelter conditions CEN and Central Bank adopt and implement policy, regulatory and operational changes required for increasing the domestic savings rate and mobilization of domestic capital for financing low-income shelter and infrastructure.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 87 to FY 89
Total U.S. Funding _____
Date Prepared: _____

Project Title & Number: HONDURAS SHELTER SECTOR PROGRAM (522-1KG-008)

PAGE 2

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose:</p> <p>To improve the institutional capacity of the private sector and municipal governments to enhance the availability of housing and infrastructure services for low-income families.</p>	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <ol style="list-style-type: none"> 1. Private sector housing production; marketing and finance entities are active participants in low-income shelter market 2. Public and private sector participating institutions (housing and urban develop.) have improved their efficiency and are fully recovering investment costs. 3. A functional system is in place for private sector participation in low-cost housing finance. 4. An institutional and financial mechanism is in place for carrying out cost recoverable upgrading activities in urban municipalities. 	<ol style="list-style-type: none"> 1. Program records 2. GOI policy, regulatory and operational documents. 3. Financial records of participating institutions. 1. Program evaluation 	<p>Assumptions for achieving purpose:</p> <ol style="list-style-type: none"> 1. GOI and Central Bank adopt and implement policy, regulatory and operational, changes required for greater private sector participation in the low-income shelter market. 2. GOI commitment to adopt and implement policies and legislation to provide for a strengthening of the local government role in municipal development.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: HONDURAS SHELTER SECTOR PROGRAM (522-HG-008)

From FY 87 to FY 89
Total U.S. Funding _____
Date Prepared: _____

PAGE 3

PAGE 3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS																									
Outputs: 1. Housing and infrastructure loans financed with \$42.5 million in capital resources.	Magnitude of Outputs: 1. 31,554 families receive financing for upgrading infrastructure, home improvements and/or new shelter. The distribution and timing of the outputs are: <table><tr><td></td><td>FY'87</td><td>FY'88</td><td>FY'89</td><td>TOTAL</td></tr><tr><td>Infra.</td><td>4,377</td><td>6,566</td><td>10,944</td><td>21,887</td></tr><tr><td>Home imp.</td><td>1,350</td><td>2,015</td><td>3,375</td><td>6,750</td></tr><tr><td>New Shelter</td><td>583</td><td>876</td><td>1,458</td><td>2,917</td></tr><tr><td>TOTAL</td><td>6,310</td><td>9,467</td><td>15,777</td><td>31,554</td></tr></table>		FY'87	FY'88	FY'89	TOTAL	Infra.	4,377	6,566	10,944	21,887	Home imp.	1,350	2,015	3,375	6,750	New Shelter	583	876	1,458	2,917	TOTAL	6,310	9,467	15,777	31,554	1. Project records	Assumptions for achieving outputs 1. GAI commitment to develop the appropriate program policies, regulations and procedures to carry out the program activities
	FY'87	FY'88	FY'89	TOTAL																								
Infra.	4,377	6,566	10,944	21,887																								
Home imp.	1,350	2,015	3,375	6,750																								
New Shelter	583	876	1,458	2,917																								
TOTAL	6,310	9,467	15,777	31,554																								
2. Development of policy framework to be achieved for improved sectoral performance	2. Development of the policy, regulatory and operational changes to: 2.1 Increase domestic savings for shelter finance for low-income families; 2.2 enhance the cost recovery and strengthen the financial position of public and private sector shelter finance institutions; 2.3 expand coverage by private sector financial institutions to include low-income families; 2.4 enhance the capability of primary and secondary city municipal governments to finance infrastructure improvements on a cost-recoverable basis.	2. Consultant reports 3. Program evaluation	2. Financial conditions and terms are such the private sector entities respond to the opportunities afforded by the program, especially that interest rate structure provide a sufficient spread for the home improvement loan program 3. low-income families avail themselves of the financing opportunities provided by the program. 4. Municipal governments committed to participating in financing cost-recoverable infrastructure investments.																									

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 87 to FY 91
Total U.S. Funding _____
Date Prepared: _____

Project Title & Number: IKINKIRAS SHELTER SECTOR PROGRAM (S22-1KG-008)

PAGE 4

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
1. Financial Inputs (\$45 million)	1. Expenditure Schedule (\$ Million)	1. Project records	1. IG loan resources available from U.S. capital markets on a timely basis and at affordable interest rates.
a) Capital Assistance	INVESTMENT		
i. \$35 million IG loan	CAPITAL FY'87 FY'88 FY'89 TOTAL	2. Annual audits	2. The GOM borrows the full IG authorization of \$35 million.
ii. \$7.5 million ESF local currency (GOM counterpart)	IG 7.0 10.5 17.5 35.0		
	GOM 1.5 2.25 3.75 7.5		
b) Technical Assistance \$1.6 million DA grant	Sub-total 8.5 12.75 21.25 42.5		3. DA grant resources obligated on a timely basis
	Tech. Assist.		4. Appropriate qualified technical advisors can be recruited.
	DA Grant		
	TA		
	L.T. 0.295 0.295 0.295 0.885		
	S.T. 0.270 0.135 0.135 0.540		
	Eval. 0.058 0.058 0.059 0.175		
	Sub-total 0.623 0.488 0.489 1.600		
	TOTAL 9.123 13.238 21.739 44.100		
2. Technical Assistance Inputs	2. 155 person months of technical assistance provided:		
a) long-term advisors	L.T. 108 person months		
b) short-term advisors	S.T. 47 person months		
c) evaluations/audits			

Appendix C. Evaluation Methodology

The evaluation was undertaken by a housing and urban development planner, a housing finance specialist, and an urban development specialist. Prior to arrival in Honduras, the team reviewed all relevant documents made available in Washington by the RHUDO and the Office of Housing and Urban Programs (PRE/H). These included the Project Paper, the Implementation Agreement, and the Grant Agreement. At that time also, the team reviewed AID guidance and methodologies for undertaking evaluations, incorporating appropriate portions into the approach ultimately used.

Two of the evaluators spent two weeks in Honduras, and the third evaluator spent three weeks, benefiting from discussions with the RHUDO staff and reviewing the project files and documents. The team continued its analysis in Washington, preparing a draft evaluation report for presentation to and review by RHUDO and USAID. Two team members returned to Honduras for report presentation and final reviews. A list of the most significant reference materials is found in Appendix D.

Based on the project issues reflected in the scope of work, the team prepared a series of questions to serve as guidance for the nearly 50 meetings held throughout the country. In Tegucigalpa, the team met with senior representatives of the key Honduran institutions, most notably the Direccion de Credito Publico of the Ministerio de Hacienda y Credito Publico, the Banco Municipal Autonomo, and the Instituto Nacional de la Vivienda. The team visited all seven of the participating cities (Tegucigalpa, San Pedro Sula, Tela, La Ceiba, Siguatepeque, Comayagua, Choluteca), meeting in each with the Mayor and responsible project implementation officials, as well as in some cities with representatives of the private sector which are important participants in the projects. In each city, the team visited project sites, discussing project impacts with neighborhood residents, small business people, and patronato representatives. A complete list of persons interviewed is found in Appendix E.

It should be noted that this evaluation is not an impact study; the evaluation was not able to design and carry out a survey of quantifiable benefits received by the target population, economic effects on those families, and other significant project results.

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Appendix D. Reference Documents

Agency for International Development, Shelter Sector Program Project Paper, September 1986.

Agency for International Development, Regional Inspector General for Audit, Tegucigalpa, Audit of Honduras Housing Guaranty Program, Projects Nos. 522-HG-005, 006, and 007, USAID/Honduras, Regional Housing and Urban Development Office for Central America, Audit Report No. 1-522-86-06, January 1986.

Banco Central de Honduras, Boletín Estadístico, Various Issues, 1986-1989.

International Monetary Fund, Honduras-Recent Economic Developments, August 1989.

Kerley, Janet, Randolph Lintz, and Antoinette Rusin, Investigación sobre la Vivienda Progresiva en Honduras y Costa Rica, Report Prepared for Regional Housing and Urban Development Office for Central America, August 1985.

PADCO, Urban Land Development Study, San Pedro Sula, Honduras, Volumes I and II, March and May 1989.

Technical Support Services, Inc., Encouraging Private Initiative, Report Prepared for AID Office of Housing and Urban Programs, April 1987.

The Urban Institute, Developing a Housing Finance Strategy for Honduras, Report Prepared for USAID/Honduras, August 1986.

The Urban Institute, Honduras Shelter and Urban Development Sector Assessment, Report Prepared for USAID/Honduras, April 1989.

The Urban Institute, Reform of the Honduran Municipal Law, Report Prepared for USAID/Honduras, March 1988.

The Urban Institute, Urban Upgrading Program for Secondary Cities, Report Prepared for RHUDD/Central America, June 1987.

Webb, Richard, Roberto Abusada, and Julio Valarde, Credit Policy in Honduras in the Context of Macroeconomic Constraints, Report Prepared for USAID/Honduras, May 1988.

Appendix E. List of Contacts

- Ministerio de Hacienda y Credito Publico (MHCP)

Direccion de Credito Publico

Lic. Cesar Carranza, Director

Lic. Gloria de Castro, Oficial de Credito

Banco Municipal Autonomo (BANMA)

Ing. David Mendoza Lupiac, Presidente

Lic. Antonio Kawas, Gerente

Unidad de Coordinacion y Asistencia Tecnica (UCAT)

Ing. Heriberto Rosales, Coordinador

Tegucigalpa

Prof. Nora Gunera de Melgar, Alcalde

Amanda von Eicken, Gerente de Trabajo Social

Rafael Carrasco, Gerente Administrativo

Unidad Ejecutora de Tegucigalpa

Ing. Luis Alonso Deras, Jefe

Ing. Martha Nunez de Vallejo, Coordinadora del Programa

Ing. Mario Bu, Asistente del Jefe de la Unidad

Renan R. Velazquez

Abeiardo Aguilera

San Pedro Sula

Ing. Hector Guillen, Alcalde

Division Municipal De Aguas (DIMA)

Ing. Gabriel Kattan, Gerente

Ing. Alfredo DiPalma, Coordinador del Programa

Unidad de Vivienda y Desarrollo Urbano (UMVIDE)

Ing. Juan E. Zelaya, Jefe de Unidad

La Metropolitana Asociacion de Ahorro y Prestamo

Lic. Manuel Trejo, Gerente

Ing. Jaime Rosenthal

La Ceiba

Dr. Ramon Antonio Leva B., Alcalde

Ing. Carlos Aguilar, Jefe de Unidad Ejecutora

Lic. Roberto Dip, Gerente, Camara de Comercio e Industria de
Atlantida

Arq. Antonio Rico, Director Unidad Ejecutora de
Planeamiento Urbano

Ing. Eduardo Flefil

Tela

Sr. Eriberto Diaz, Alcalde

Ing. Juan Manuel Caceres, Jefe de la Unidad Ejecutora

Siguatepeque

Sr. Salomon Sosa, Alcalde
Ing. Douglas Jimenez, Jefe de la Unidad Ejecutora
Lic. Laura Zelaya, Administrador de la Unidad Ejecutora

Comagua

Sr. Ignacio Paz, Alcalde
Ing. Marco A. Martinez, Jefe de la Unidad Ejecutora
Napoleon Cepeda, Social Promotor

Choluteca

Sr. Omar Antonio Guillen, Alcalde
Ing. Beder Callejas, Jefe de la Unidad Ejecutora

Banco Central de Honduras

Lic. Ricardo Maduro

Fondo de la Vivienda (FOVI)

Lic. Reynaldo Nelson
Lic. Marcial Flores Sosa

Instituto Nacional de La Vivienda (INVA)

Arq. Mario Ernesto Martin M., Gerente
Lic. Lilian Gutierrez de Molina, Division de Finanzas
Arq. Randolph Moya C., Jefe, Regional Norte
Ing. Jaime Danilo Fernandez, Encargado Proyecto Ciudad Planeta

Federacion Hondurena de Asociacion de Ahorro y Prestamo

Lic. Salomon Galindo, Gerente

Program de Generacion de Empleo

Ing. German Aparicio, Coordinador
Ing. Rafael Rivera

Consultores Financieros Internacionales (COFINSA)

Dr. Mario Rietti Matheu, Gerente

CONDISA

Ing. Rigoberto Romero, Gerente de Operaciones

Futuro, Asociacion de Ahorro y Prestamo

Ing. Vicente Williams, Presidente
Lic. Manuel Gutierrez, Gerente
Lic Ana Luz Mejia, Gerente Credito

La Constancia, Asociacion de Ahorro y Prestamo

Lic. Luis Felipe Lozano, Gerente

La Vivienda, Asociacion de Ahorro y Prestamo

Lic. Rigoberto Guevara, Gerente Credito

La Metropolitana Asociacion de Ahorro y Prestamo
Dr. Mario Rietti Matheu, Presidente
Lic. Manuel Trejo, Gerente

RHUDO/Central America
Mario Pita, Director
William Yeager
Ronald Carlson
Sigifredo Ramirez
Harry Jager
Rafael Domingas
John Fisher

USAID/Honduras
Eugene Szepesy
Lars Klassen
Kevin Sanderson
Carmen Zambrana
Art Riveira

Cooperative Housing Foundation
Eddy Perez

Appendix F. Tables

Table 1

Honduras: Composition of the FOVI Portfolio

(New Shelter Solutions Financed; January 1986-December 1989)
(Values in Thousands of Current Lempiras)

Financial Intermediary	New Houses	Value	Urbanized Lots	Value	Home Improvement Loans	Value	Total Solutions	Total Value
-----	-----	-----	-----	-----	-----	-----	-----	-----
Savings and Loan Associations	2,552	48,642.7	244	1,531.8	358	4,125.0	3,154	54,299.5
522-HG-008 Program	1,805	22,776.3	70	394.7	47	144.2	1,922	23,315.2
(Reimbursed by A.I.D.)	1,441	19,003.1	70	394.7	0	0	1,511	19,397.8
(Not Reimbursed by A.I.D.)	364	3,773.2	0	0	47	144.2	411	3,917.4
Commercial Banks	1	20.0	0	0	13	375.0	14	395.0
522-HG-008 Program	0	0	0	0	0	0	0	0
(Reimbursed by A.I.D.)	0	0	0	0	0	0	0	0
(Not Reimbursed by A.I.D.)	0	0	0	0	0	0	0	0
NGOs 1/	673	14,388.7	0	0	79	500.0	752	14,888.7
522-HG-008 Program	197	1,774.7	0	0	13	66.0	210	1,840.7
(Reimbursed by A.I.D.)	197	1,774.7	0	0	0	0	197	1,774.7
(Not Reimbursed by A.I.D.)	0	0	0	0	13	66.0	13	66.0
PRIVATE SECTOR SUBTOTAL	3,226	63,051.4	244	1,531.8	450	5,000.0	3,920	69,583.2
522-HG-008 Program	2,325	29,783.6	70	394.7	60	210.2	2,455	30,388.5
(Reimbursed by A.I.D.)	1,961 *	26,010.4	70	394.7	0	0	2,031	21,172.5
(Not Reimbursed by A.I.D.)	364	3,773.2	0	0	60	210	424	3,983.4
INVA	1,424	10,574.9	103	419.0	173	1,500.0	1,700	12,493.9
522-HG-008 Program	775	7,873.8	103	453.2	109	535.7	987	8,862.7
(Reimbursed by A.I.D.)	574	4,484.9	0	0	0	0	574	4,484.9
(Not Reimbursed by A.I.D.)	201	3,388.9	103	453.2	109	535.7	413	4,377.8
TOTALS	4,650	73,626.3	347	1,950.8	623	6,500.0	5,620	82,077.1
522-HG-008 Program	2,777	32,424.8	173	847.9	169	745.9	3,119	34,018.6
(Reimbursed by A.I.D.)	2,212	25,262.7	70	394.7	0	0.0	2,282	25,657.4
(Not Reimbursed by A.I.D.)	565	7,162.1	103	453.2	169	745.9	837	8,361.2

1/ Includes FEHCOVIL and Asociacion San Juan Bosco

* Includes 323 mortgages valued at L5.2 million previously held by FOVI, now assigned to the private sector

Sources: FOVI; RHUDO/CA

Table 2

Honduras: Savings and Investment 1984-1988

(Millions of Current Lempiras; End of Period)

	1984	1985	1986	1987	1988
	-----	-----	-----	-----	-----
Gross National Savings	525	634	583	536	491
Public Savings	108	104	102	29	(11)
Private Savings	417	530	481	507	502
Net Private Deposits of S+Ls	113	102	109	137	139
External Savings	706	630	492	658	682
Net Capital Inflows	589	490	463	438	374
Gross Domestic Investment	1,231	1,264	1,075	1,194	1,173
Current GDP	6,462	6,977	7,600	8,109	8,799
Private Savings/GDP	6.5%	7.6%	6.3%	6.3%	5.7%
External Savings/Investment	57.4%	49.8%	45.8%	55.1%	58.1%
External Savings/GDP	10.9%	9.0%	6.5%	8.1%	7.8%
Net Capital Inflows/GDP	9.1%	7.1%	6.1%	5.4%	4.3%

Source: Central Bank of Honduras

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Table 3

Honduras: Mortgage Lending 1984-1988
(Millions of Current Lempiras; End of Period)

	1984	1985	1986	1987	1988
	-----	-----	-----	-----	-----
Specialized Savings Institutions					
(1) Real Estate Mortgages	142.6	153.7	146.4	169.9	176.0
Commercial Banks					
(2) Real Estate Mortgages	56.7	59.5	63.2	74.9	79.0
Consolidated Financial System 1/					
(3) Real Estate Mortgages	199.6	213.7	209.9	245.0	255.2
(4) Total Lending	2,142.9	2,367.3	2,520.8	2,900.6	3,167.9
S+L Mortgages/Total Mortgages	71.4%	71.9%	69.7%	69.3%	69.0%
S+L Mortgages/Total Lending	6.7%	6.5%	5.8%	5.9%	5.6%
Commercial Bank Mortgages/Total Mortgages	28.4%	27.8%	30.1%	30.6%	31.0%
Commercial Bank Mortgages/Total Lending	2.6%	2.5%	2.5%	2.6%	2.5%
Total Mortgages/Total Lending	9.3%	9.0%	8.3%	8.4%	8.1%

1/ Excluding the Central Bank

Source: Central Bank of Honduras

Table 4

Honduras: Residential Construction by the
Private Sector 1985/86-1987/88

(Number of Units and Average Value; End of Period)

	1985/86 -----	1986/87 -----	1987/88 -----	Three Year Average -----
Number of Units Constructed 1/	1,442	1,982	2,530	1,985
Average Value Net of Land (L)	49,626	41,806	53,091	48,174

1/ Tegucigalpa, San Pedro Sula and La Ceiba Urban Areas

Source: Central Bank of Honduras

Table 5

Mortgages Originated by the S+L System and Discounted by FOVI, 1986-1989

	Number -----	Percent Distribution -----
Price Ranges of Homes Financed		
<L21,000	1805	70.7%
L21,001-25,000	238	9.3%
L25,001-45,000	267	10.5%
L45,001-65,000	203	8.0%
>L65,000	39	1.5%
Totals	2552	100.0%

Source: FOVI

Table 6

Honduras: Residential Construction by the Private
Sector Under Housing Guaranty Program 008

(Number of Units and Sales Price; End-1989)

Project and Location -----	Units -----	Sales Price -----
Cerro Grande, Tegucigalpa	35	21,000
San Juan de los Llanos, Tegucigalpa	344	21,000
La Nueva Era, Tegucigalpa	16	20,600
Centro America Oeste, Tegucigalpa	341	14,300
La Mora/San Jorge, San Pedro Sula	348	12,900

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Table 7

Honduras: Income Distribution of Housing
Guaranty Program 008 Beneficiaries

(Number of Recipients of New Shelter Solutions; End-1989)

Income Ranges	Number of Beneficiaries	Proportion of Total
<L900	1,855	71.2%
L901-1,000	208	8.0%
L1,001-1,100	144	5.5%
L1,101-1,200	81	3.1%
L1,201-1,300	57	2.2%
L1,301-1,400	38	1.5%
L1,401-1,500	63	2.4%
>L1,500	159	6.1%
>L900	750	28.8%
Total	2,605	100.0%

Source: FOVI

Table 8
TEGUCIGALPA PROJECT EXECUTION
(project execution in all tables as of March 1990)

PROJECT	Starting date	Planned date of completion	Extra days needed for project completion	% Project implement.
La Pradera II	4-6-88	5-5-88	0	100
El Rincon	2-1-89	8-14-89	0	100
La Trinidad	9-1-89	2-22-90	25	100
Lempira	9-30-87	7-31-88	126	100
Bella Vista	7-1-88	10-31-89	6	100
El Calvario	7-1-88	10-30-89	260	100
Mercedes III	6-21-89	2-16-90	120	100
Los Indios	4-7-89	4-4-90	95	100
Mercedes II*	-	-	0	-
Total			632	

* This paving project was originally estimated to cost L560,000,000. The project was not implemented under the Urban Poor II program. The Municipality is designing the project with the intention of implementing it with its own resources.

Table 9
TEGUCIGALPA COST RECOVERY

PROJECT	External Financing in Lempiras	Initial date for cost recovery program	Amount Recovered in Lempiras	% of Total Recovery
La Pradera II	320,000	August 88	46,214	14
El Rincon	340,000	March 88	18,029	5
La Trinidad	417,000	-	-	-
Lempira	745,000	Oct. 88	280,646	38
Bella Vista	700,000	Nov. 88	29,677	4
El Calvario	1,041,000	Nov. 88	38,694	4
Mercedes III	615,000	-	-	-
Los Indios	1,395,633	March 89	21,015	1.5
Mercedes II*	5,960	-	-	-
Total	5,579,593		434,275	8

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Table 10
SAN PEDRO SULA PROJECT EXECUTION (1)

PROJECT	Starting date	Planned date of completion	Extra days needed for project completion	% of Project implement.
Sinai II	3-87	5-90	150	100
6 de Mayo	5-87	5-90	150	100
Paz La Union San Luis Islas Progreso	4-87	6-88	0	100
Rodas Alvarado Zelaya I-II Cabanas San Jose	5-87	12-87	0	100
El Higueral	5-88	9-88	0	100
Chamelecon	8-87	6-90	180	93
San Antonio Suyapa Paling	8-87	6-90	180	93
Flor del Valle	11-87	5-88	30	100
Central Centralita	9-87	5-90	150	93
Sitra-Alus	11-87	5-88	30	100
La Libertad	9-87	12-87	150	100
Col. Honduras	8-87	3-88	60	100
V. Morales	10-87	5-88	30	100
Bu Giron	12-87	3-88	0	100
Valle Sula	12-87	1-89	0	100

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SAN PEDRO SULA PROJECT EXECUTION (2)

PROJECT	Starting date	Planned date of completion	Extra days needed for project completion	% of Project implement.
Los Angeles Santa Marta Alianza	8-87	5-90	150	90
Calpules	3-87	5-90	90	90
El Carmen	8-88	10-89	0	100
R. Hernandez Sinai Brisas Sauce	1-89	5-90	90	98
Sabillon Fe y Esperanza San Jose Los Angeles	1-89	5-90	90	99
Suyapa Anach	2-88	4-88	0	100
Esquipulas	7-89	9-89	0	100
Primavera R.	2-88	8-88	0	100
S.P.V.D.	-	3-91	0	-
Suyapa Anach*			0	
Total			1,530	

*Eligibility suspended

Note: Projects completed 90% and over are awaiting for imported materials and accessories, such as, water and sewage pumps. These materials have been order already. Once these materials arrive DIMA will install them and put the projects to operate in a 30 days period.

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Table 11
SAN PEDRO SULA COST RECOVERY (1)

PROJECT	Project Costs in Lempiras	Initial date for cost recovery programs	Amount Recovered in Lempiras	% of Total Recovery
Sinai II	178,030			
6 de Mayo	308,585			
Paz La Union San Luis Islas Progreso	968,580	2-89	138,720	14
Rodas Alvarado Zelaya I-II Cabanas San Jose	371,120	2-89	69,080	19
El Higueral	140,251	8-88	17,058	12
Chamelecon	705,430			
San Antonio Suyapa Paling	1,219,730			
Flor del Valle	140,000	2-89	16,146	12
Central Centralita	246,300			
Sitra-Alus	84,330	8-88	15,659	19
La Libertad	96,389	2-89	9,657	10
Col. Honduras	302,300	8-88	34,679	11
V. Morales	88,304	8-89	4,342	5
Bu Giron	92,231	8-89	3,990	4
Valle Sula	1,145,900	9-89	13,350	1

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SAN PEDRO SULA COST RECOVERY (2)

PROJECT	Project Cost in Lempiras	Initial date for cost recovery program	Amount Recovered in Lempiras	% of Total Recovery
Los Angeles Santa Marta Alianza	508,400			
Calpules	2,200,000			
El Carmen	438,330			
R. Hernandez Sinai Brisas Sauce	1,270,000			
Sabillon Fe y Esperanza San Jose Los Angeles	2,007,900			
Suyapa Anach	76,000			
Esquipulas	33,300			
Primavera R.	57,000	8-89	495	
S.P.V.D.	10,000,000	3-91		
Suyapa Anach*	760,000			
Total	23,438,410		323,176	13.7

*Eligibility Suspended

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Table 12
LA CEIBA PROJECT EXECUTION

PROJECT	Starting date	Planned date of completion	Extra days needed for project completion	% of Project implement.
La Isla La Gloria La Julia	2-89	10-89	30	100
El Iman Alvarado La Merced Bella Vista Zelaya	10-89	6-90	0	70
Total			30	

Table 13
LA CEIBA COST RECOVERY

PROJECT	Project Cost in Lempiras	Initial date for cost recovery program	Amount Recovered in Lempiras	% of Total Recovery
La Isla La Gloria La Julia	886,307	3-89	90,000	10
El Iman Alvarado La Merced Bella Vista Zelaya	1,182,242	11-89	1,060	1
Total	2,068,549		91,060	4.4

Table 14
TELA PROJECT EXECUTION

PROJECT	Starting date	Planned date of completion	Extra days needed for project completion	% of Project Implement.
Lempira Highland Creek T. Sierra Buenos Aires	11-89	11-90	0	38
Total				

Table 15
TELA COST RECOVERY

PROJECT	Project Cost in Lempiras	Initial date for cost recovery program	Amount Recovered in Lempiras	% of Total Recovery
Lempira Highland Creek T. Sierra Buenos Aires	1,540,000			
Total				

Table 16
COMAYAGUA PROJECT EXECUTION

PROJECT	Starting date	Planned date of completion	Extra days needed for project completion	% of Project implement.
Santa Lucia	3-89	11-89	0	100
San Francisco	3-89	12-89	30	100
Total				

Table 17
COMAYAGUA COST RECOVERY

PROJECT	Project Cost in Lempiras	Initial date for cost recovery program	Amount Recovered in Lempiras	% of Total Recovery
Santa Lucia	375,635	4-89	4,566	1
San Francisco	236,323	4-89	8,840	4
Total	593,958		13,406	

Table 18
SIGUATEPEQUE PROJECT EXECUTION

PROJECT	Starting date	Planned date of completion	Extra days needed for project completion	% of Project implement.
El Carmen Suyapa San Juan	2-89	2-90		100
Total				

Table 19
SIGUATEPEQUE COST RECOVERY

PROJECT	Project Cost in Lempiras	Initial date for cost recovery program	Amount Recovered in Lempiras	% of Total Recovery
El Carmen Suyapa San Juan	1,876.292	3-89	80,000	4
Total	1,876,292		80,000	

Table 20
CHOLUTECA PROJECT EXECUTION

PROJECT	Starting date	Planned date of completion	Extra days needed for project completion	% of Project implement.
La Libertad San Juan Bosco Los Graneros	6-90	3-91		
Total				

Table 21
CHOLUTECA COST RECOVERY

PROJECT	Project Cost in Lempiras	Initial date for cost recovery program	Amount Recovered in Lempiras	% of Total Recovery
La Libertad San Juan Bosco Los Graneros	2,427,652			
Total	2,427,652			

Table 22
SUMMARY OF DISBURSEMENTS
FID-MS-008
(US\$)

UPDATE: 12.25.89

LF.	DATE	CONCEPT	AMOUNT	BALANCE	DISBURSEMENTS HDB. FINANCE	BALANCE	DISBURSEMENTS URB. UPGRADING	BALANCE
-	09/09/87	Loan Contracted	25,000,000.00	25,000,000.00	-	25,000,000.00	-	25,000,000.00
-	09/09/87	Eligible Fees	490,000.00	24,520,000.00	286,000.00	24,712,000.00	192,000.00	9,809,000.00
1.	08/19/87	704 Mortgages	2,057,932.00	22,662,068.00	2,057,932.00	12,654,068.00	-	9,809,000.00
-	09/02/87	Urb. Upgr. SPS	1,773,300.00	20,888,768.00	-	12,654,068.00	1,773,300.00	8,034,700.00
2.	09/10/87	Urb. Upgr. TGU	461,502.00	20,427,266.00	-	12,654,068.00	461,502.00	7,573,198.00
3.	12/14/87	323 Mortgages	2,616,300.00	17,810,966.00	2,616,300.00	10,037,768.00	-	7,573,198.00
4.	03/18/88	Urb. Upgr. SPS	1,100,202.00	16,710,764.00	-	10,037,768.00	1,100,202.00	6,472,996.00
5.	03/30/88	70 Mortgages	318,422.00	16,392,342.00	318,422.00	9,719,346.00	-	6,472,996.00
6.	04/19/88	Urb. Upgr. TGU	630,747.00	15,761,595.00	-	9,719,346.00	630,747.00	5,842,249.00
7.	05/14/88	125 Mortgages	889,507.00	14,872,088.00	889,507.00	8,829,839.00	-	5,842,249.00
8.	08/29/88	122 Mortgages	680,872.00	14,191,216.00	880,972.00	7,948,967.00	-	5,842,249.00
9.	09/21/88	San Pedro Gula	2,000,000.00	12,191,216.00	-	7,948,967.00	2,000,000.00	3,942,249.00
10.	10/08/88	143 Mortgages	849,115.00	11,342,101.00	849,115.00	7,099,852.00	-	3,942,249.00
11.	11/11/88	117 Mortgages	629,355.00	10,712,746.00	629,355.00	6,470,497.00	-	3,942,249.00
12.	02/23/89	189 Mortgages	989,337.00	9,723,409.00	989,337.00	5,481,160.00	-	3,942,249.00
13.	02/23/89	187 Mortgages	785,363.00	8,938,046.00	785,363.00	4,695,797.00	-	3,942,249.00
14.	05/16/89	Urb. Upgr. TGU	525,600.00	8,412,446.00	-	4,695,797.00	525,600.00	3,316,649.00
15.	05/19/89	179 Mortgages	973,551.00	7,438,895.00	973,551.00	3,722,246.00	-	3,316,649.00
16.	06/09/89	373 Mortgages	1,310,928.00	6,127,967.00	1,310,928.00	2,411,318.00	-	3,316,649.00
17.	06/20/89	Urb. Upgr. LC	350,000.00	5,777,967.00	-	-	350,000.00	2,966,649.00
18.	07/03/89	Urb. Upgr. SBT	102,000.00	5,675,967.00	-	2,411,318.00	102,000.00	2,864,649.00
19.	07/14/89	82 Mortgages	632,743.00	5,043,224.00	632,743.00	1,778,575.00	-	2,864,649.00
20.	08/24/89	Urb. Upgr. CMY	89,093.00	4,954,131.00	-	1,778,575.00	89,093.00	2,775,556.00
21.	09/27/89	Urb. Upgr. SPS	417,918.00	4,536,213.00	-	1,778,575.00	417,918.00	2,357,638.00
	09/27/89	Urb. Upgr. TGU	290,690.00	4,245,523.00	-	1,778,575.00	290,690.00	2,066,948.00
22.	10/26/89	Urb. Upgr. SBT	179,444.00	4,066,079.00	-	-	179,444.00	1,887,504.00
	10/26/89	Urb. Upgr. LC 1	27,946.00	3,938,133.00	-	-	27,946.00	1,859,558.00
23.	11/01/89	391 Mortgages	333,280.00	3,604,853.00	383,280.00	1,395,295.00	-	-
24.	12/04/89	Urb. Upgr. LC 2	137,529.00	3,467,324.00	-	1,395,295.00	137,529.00	1,722,025.00

TOTAL

13,604,705.00

8,277,971.00

Total Disbursement: 21,852,676.00
Escrows: 3,117,324.00
Total Mortgages 2,605

A-DOJINQUE

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HORA SI.....

UNA VIVIENDA DE 2 DORMITORIOS POR
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URBANIZACION CERRO GRANDE.

Financiado por: + Fondo de la Vivienda "F.O.V.I."
(Recursos convenio ejecución A.I.D.- 522 HGO08)

or intermedio de LA VIVIENDA S.A.



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VER CASA MODELO TODOS LOS DIAS,
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